

EY Italian Macroeconomic Bulletin

N°14 | March 2026



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Index

01. Executive summary	3
02. The global scenario	4
02.1 The global economy	4
02.2 Growth in the major global economies: latest data	10
03. The European outlook	15
03.1 The Eurozone economic outlook and short-term indicators	15
03.2 Monetary policy and prices in the Eurozone	17
04. The Italian economy	23
04.1 Developments in the real economy	23
04.2 Price developments and the labour market in Italy	26
05. The Italian economy: GDP and EY forecasts	30
05.1 Focus: The War in the Middle East and Implications for the Italian Economy	32
06. Assumptions underpinning the forecasts	38
07. Technical Appendix	40

Executive summary

- The global economy is projected to expand at a pace above 3% in both 2026 and 2027 (3.3% and 3.2%, respectively), while global inflation is expected to continue its gradual normalization. At the same time, marked heterogeneity across major economies persists, a divergence that could be further amplified by the conflict in the Middle East.
- Against a global backdrop already characterized by elevated uncertainty—largely driven by trade policy tensions and the war in Ukraine—additional sources of risk have emerged from the conflict in the Middle East, with potentially significant repercussions for energy price dynamics and global trade flows.
- Growth in the Eurozone is expected to reach 1.3% in 2026 and to remain at a similar pace in 2027. The economic environment continues to be shaped by persistent challenges in the industrial sector, despite some tentative signs of improvement in recent months. Key areas of concern include elevated public debt levels, which may entail upside risks, weak or contracting goods trade in the latter part of 2025, and the potential spillovers from the conflict in the Middle East.
- The current geopolitical complexity and heightened uncertainty represent critical constraints for the conduct of monetary policy in the Eurozone and beyond. Three dimensions are particularly relevant: (i) the duration of the shock, (ii) its magnitude, and (iii) the degree of pass-through from higher energy costs to consumer prices. At its February meeting, the ECB left policy rates unchanged, with the deposit facility rate at 2.0%. Risks to the Eurozone outlook remain tilted to the downside, reflecting ongoing geopolitical tensions, persistent weakness in industry, and public debt levels still above their pre-pandemic benchmarks.
- From a sectoral standpoint, the Italian economy continues to display pronounced heterogeneity. Overall, industrial activity remains significantly weak, notwithstanding the presence of highly dynamic segments, such as pharmaceuticals. By contrast, the services sector shows more favorable dynamics, although aggregate turnover has remained broadly flat in recent months.
- Consumer price inflation stood at 1.5% in February 2026, up from 1.0% in January and 1.2% in December, driven primarily by an acceleration in core inflation, in turn reflecting stronger price dynamics in services. The labour market remains resilient; however, real hourly wages are still below their 2021 levels.
- In this environment, EY forecasts for Italy point to real GDP growth of 0.7% in 2026 and 0.4% in 2027. Inflation is expected to rise by 2.6% in 2026 before easing to 1.9% in 2027. These projections are subject to a high degree of uncertainty, given the mixed and sometimes conflicting signals currently emerging from available data.
- Given the elevated geopolitical uncertainty, an adverse scenario has been considered. Relative to the baseline, this scenario assumes higher oil and natural gas prices, a slowdown in global trade and in Italian goods exports to Gulf countries and Iran, and a tightening of monetary policy by the ECB in response to renewed inflationary pressures. Under these assumptions, GDP in 2027 is projected to be cumulatively around 0.6% lower than in the baseline scenario, while inflation would rise to 3.3% in 2026 and 2.6% in 2027.
- In this scenario, sectoral impacts are uneven. Some sectors of the Italian economy—most notably accommodation and food services—are expected to experience more pronounced adverse effects.

Figure 1: Real GDP, Italy - % change

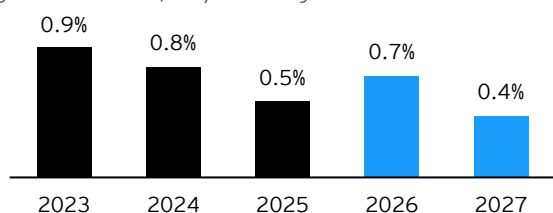
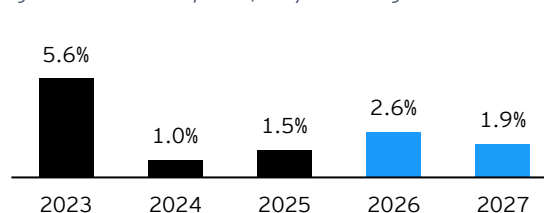


Figure 2: Consumer prices, Italy - % change



The global scenario

The global economy

Global economic growth is estimated to have reached 3.3% in 2025 and is projected to remain broadly stable in 2026 and 2027 (3.3% and 3.2%, respectively), according to the IMF's latest forecasts in the January 2026 WEO Update (Interim Report).¹

As always, this aggregate outcome masks heterogeneous growth dynamics across major economies and country groupings. In particular, US growth is expected to come in at 2.1% in 2025 and, according to IMF estimates, to strengthen in 2026 (2.4%) before moderating in 2027 (2.0%).

The figure has been revised downward relative to the October 2025 forecast round, which projected growth of 2.1% for 2026. Growth is broadly unchanged for 2027; compared with the previous forecast, this implies a correction of 0.1 percentage points.

The outlook is different for the euro area, where growth is expected to remain more moderate—between 1.3% and 1.4%—with only marginal revisions relative to prior projections.

China and India are expected to end 2025 with growth of 5.0% and 7.3%, respectively, followed by a slowdown in 2026 and 2027 (China: 4.5% and 4.0%; India: 6.4% in both years). Here too, a degree of cautious optimism is evident, translating—similarly to the United States—into upward revisions to 2026 growth forecasts of 0.3 and 0.2 percentage points, respectively. For 2027, by contrast, China records a downward revision of -0.2 percentage points.

Figure 1: Real GDP - % change

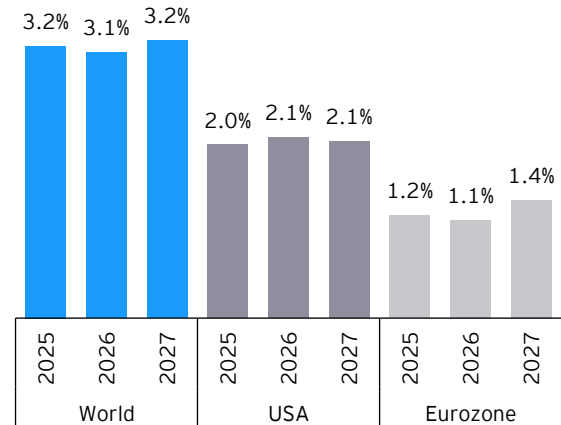
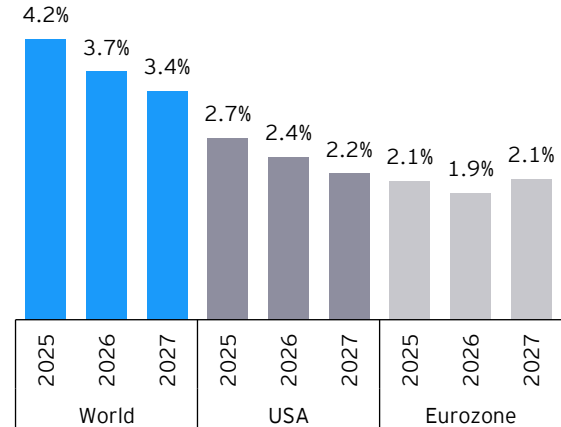


Figure 2: Consumer prices - % change



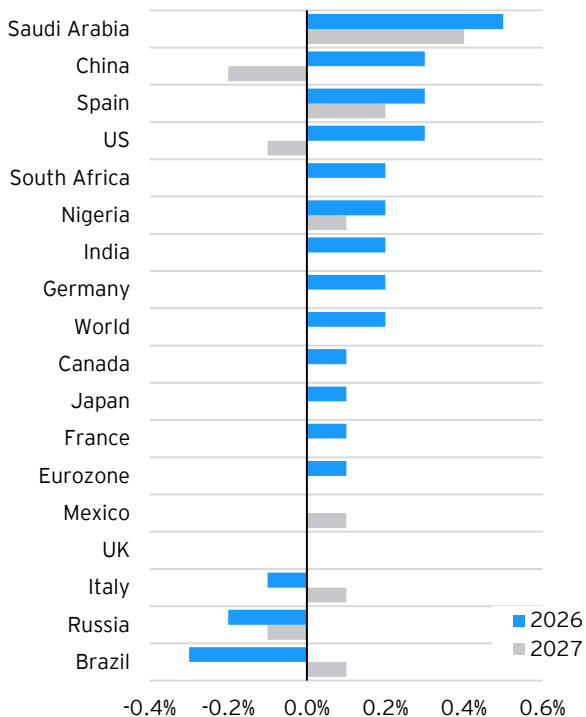
Source: EY-Parthenon calculations based on IMF World Economic Outlook data, January 2026 for GDP, October 2025 for consumer prices.

With respect to price developments, the IMF expects global inflation to decline from 4.2% in 2025 to 3.4% in 2027, broadly in line with the average recorded over 2000-2019 (3.9%). Inflation in the United States is also expected to move back towards levels consistent with the price stability objective (2%) by 2027 (expected

¹ International Monetary Fund, World Economic Outlook, January 2026 - Global Economy: Steady amid Divergent Forces.

inflation at 2.2%). In the euro area, inflation is instead projected to remain aligned with the central bank's objective (2%) across all three years considered.

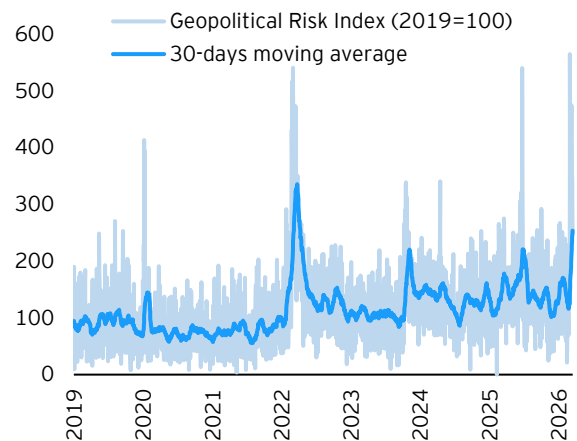
Figure 3: IMF forecast revisions - January 2026 vs October 2025, percentage points. Positive values indicate upward revisions compared to October forecasts



Source: International Monetary Fund.

The current international environment is characterised by heightened geopolitical uncertainty. This is well captured by the Geopolitical Risk Index, which in March recorded very elevated readings, comparable to those observed at the onset of the Russia-Ukraine war (2022) or at the inauguration of the new US administration.

Figure 4: Geopolitical Risk Index, World - daily values and 30-day moving average



Source: EY-Parthenon calculations based on Caldara et al. (2019) data.² Latest available data: 16 March 2026.

The Geopolitical Risk Index, however, captures only one of several dimensions of uncertainty observable at the global level. Another relevant measure is the Trade Policy Uncertainty Index, which tracks uncertainty related to trade policy. After the marked decline seen in recent months, the index has risen in March, while remaining well below the levels recorded at the beginning of 2025.

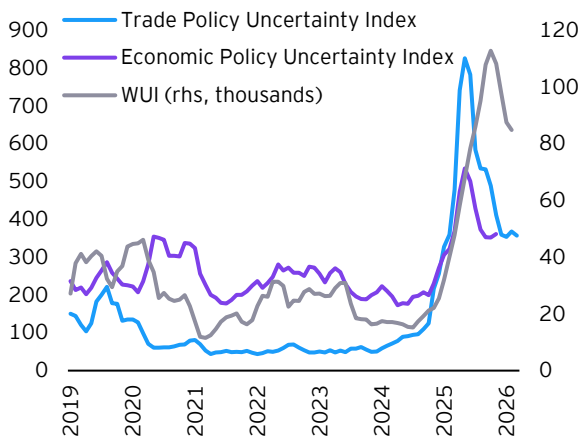
The pickup in overall uncertainty is also reflected in other indicators, although the latest available data refer to February and therefore do not capture the most recent geopolitical developments.

Consider, for example, the Economic Policy Uncertainty Index, a broader measure of uncertainty, which has declined in recent months even though its overall level remains very high. A further metric is the World Uncertainty Index, which shows dynamics broadly consistent with the other two indicators.

² Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo, "The Economic Effects of Trade Policy

Uncertainty," revised November 2019, Journal of Monetary Economics, forthcoming.

Figure 7: Uncertainty indices, World - 3-month moving averages

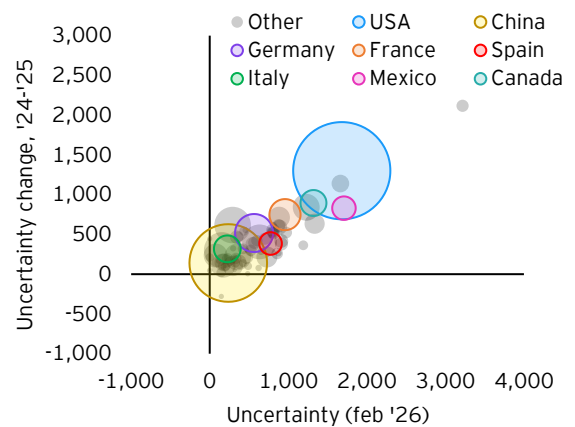


Source: EY-Parthenon calculations based on Caldara et al. (2019) data,³ Economic Policy Uncertainty database. WUI: World Uncertainty Index. Latest available data: February 2026.

The uncertainty signalled by the indicators above provides a global perspective and does not capture cross-country heterogeneity. While a high degree of uncertainty characterises all major economies, it is important to note differences across countries in both the evolution and the magnitude of the phenomenon.

Indeed, the data suggest that economies such as the United States, Mexico and Canada are characterised by elevated uncertainty—both in the latest available readings and in the change in average values between 2024 and 2025. Major European economies also exhibit heightened uncertainty, albeit at levels below those recorded in the countries mentioned above. By contrast, China displays relatively contained uncertainty compared with other major economies, despite pressures stemming from US trade policy.

Figure 8: World Uncertainty Index, World



Source: EY-Parthenon calculations based on Caldara et al. (2019) data,⁴ Economic Policy Uncertainty database. Size is given by GDP at current prices expressed in dollars.

The current environment of uncertainty, stemming not only from the renewed US-Iran conflict but also from overseas trade policy decisions, is weighing on the performance of the global economy.

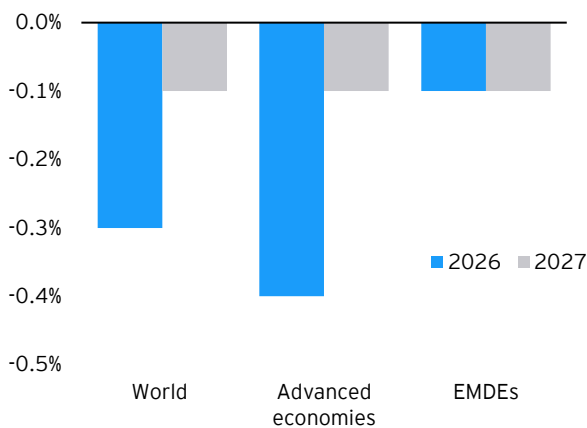
The dynamics described may entail significant repercussions for the outlook of international trade, adversely affecting both business sentiment and investment activity.

Moreover, in a context marked by a pronounced deterioration in equity valuations, to the extent that it induces a substantial weakening of household and corporate confidence, global economic growth may prove more subdued: specifically, the World Bank estimates that, in the presence of such a financial and confidence shock, global growth could be up to around 0.3 percentage points lower than in the baseline scenario.

³ Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo, "The Economic Effects of Trade Policy Uncertainty," revised November 2019, Journal of Monetary Economics, forthcoming.

⁴ Caldara, Dario, Matteo Iacoviello, Patrick Molligo, Andrea Prestipino, and Andrea Raffo, "The Economic Effects of Trade Policy Uncertainty," revised November 2019, Journal of Monetary Economics, forthcoming.

Figure 9: Change in GDP growth under an adverse scenario



Source: World Bank.

Political tensions and fragmentation are also key drivers of cross-border capital flow dynamics, influencing both their scale and their direction. First, heightened geopolitical risk can trigger interruptions or reversals of capital flows, particularly from emerging economies, while advanced economies may benefit from increased inflows driven by “flight to safety” behaviour.

Second, rising geopolitical tensions are fostering structural adjustments in the international allocation of capital. “Political distance” affects all forms of cross-border investment, revealing a clear tendency towards allocation patterns guided by geopolitical affinity between countries.⁵

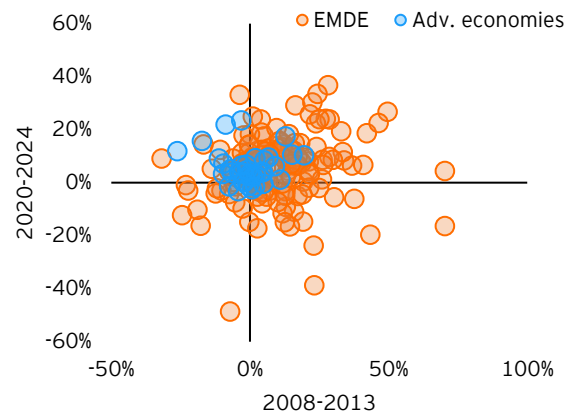
Another relevant aspect in assessing global economic developments under the current uncertainty environment concerns the diverging performance of advanced economies relative to emerging and developing economies.

In this respect, it is worth noting that the majority of advanced economies (more than 80%) had, by 2024, recovered their pre-pandemic (2019) levels of per capita income. By contrast, around one quarter of emerging market and developing economies (EMDEs) still display per capita income levels below those recorded before the pandemic.

This pattern differs from that observed in the aftermath of the 2008 financial crisis, when roughly a quarter of emerging and developing

economies had yet to regain their pre-crisis per capita GDP levels. For advanced economies, the situation was markedly more severe: more than half continued to report per capita GDP levels below those of 2008, pointing to a particularly protracted recovery process.

Figure 10: Percentage delta of per capita GDP levels at the outbreak of the crisis and five years later



Source: EY-Parthenon calculations based on World Bank data.

In any case, it should be emphasised that the two crises under consideration were of a fundamentally different nature. The pandemic shock was driven by the suspension of a wide range of economic activities to protect public health, and by policy responses that simultaneously compressed demand and supply; the 2009 recession, by contrast, reflected acute stress in the financial sector alongside rising private indebtedness.⁶

Consequently, post-crisis dynamics were shaped not only by the distinct nature of the shocks, but also by the presence of additional disturbances following the pandemic and by the differing sets of policy responses.

The recovery from the 2020 recession indeed took place in a context marked by a series of interconnected shocks: disruptions in global value chains in 2021, the increase in energy prices following Russia’s invasion of Ukraine in early 2022, and the rise in inflation over the 2021-2023 period, which led to a synchronised response by many central banks towards

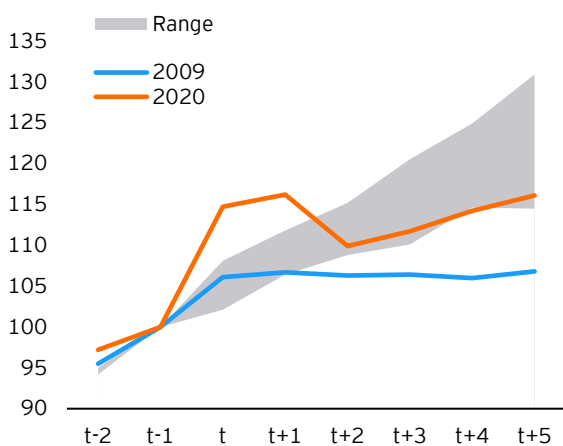
⁵ Albori, M. (2025). Politics will tear us apart, again. Geopolitical risk, fragmentation, and capital flows. *Questioni di Economia e Finanza* (Occasional Papers), numero 974.

⁶ Guénette, J. D., M. A. Kose, and N. Sugawara. 2022. “Is a Global Recession Imminent?” *Equitable Growth, Finance, and Institutions Policy Note 4*, World Bank, Washington, DC.

restrictive monetary policy.⁷ This recovery was further threatened by elevated geopolitical tensions – including the conflict in the Middle East – together with an increase in trade restrictions and the political uncertainty environment.^{8,9}

The period following 2009, by contrast, was marked by the persistent adverse effects of the financial crisis, including elevated private debt, renewed fragilities in the banking sector, and the Eurozone sovereign debt crisis in 2011-2012. Commodity prices – initially metals and agricultural products, followed by oil – fell sharply from their 2011 peaks, reflecting weaker demand growth and ample supply conditions.¹⁰

Figure 11: Public expenditure, advanced economies - index, t-1=100



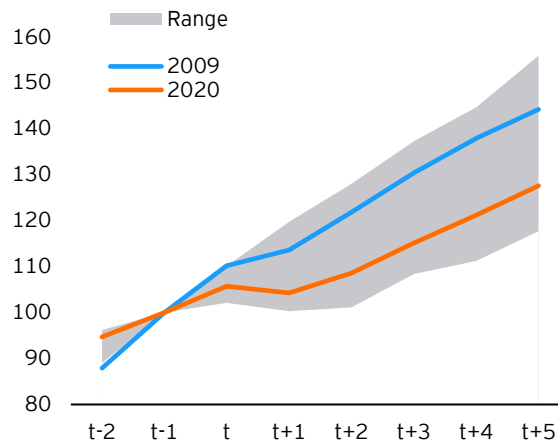
Source: World Bank. Year t represents the recession year. The grey area represents the range of values recorded in the years 1975, 1982 and 1991.

Mirroring the different nature of the shocks, economic policy responses during the respective recovery phases also diverged substantially. After 2009, advanced economies were characterised by restrictive fiscal stances and accommodative monetary policy, while many emerging and developing economies pursued countercyclical policies to sustain demand.¹¹

In the post-pandemic recovery, this configuration has largely reversed. Advanced economies implemented expansive and persistent

fiscal measures, while, from the end of 2021, monetary policy shifted rapidly towards tightening in response to the sharp acceleration in inflation.

Figure 12: Public expenditure, emerging and developing economies - index, t-1=100



Source: World Bank. Year t represents the recession year. The grey area represents the range of values recorded in the years 1975, 1982 and 1991.

Emerging and developing economies, instead, entered the post-pandemic phase with fiscal deficits and public debt levels that were elevated relative to the pre-financial crisis period, constraining the scope for discretionary fiscal policy.^{12,13}

Returning to the issue of uncertainty and, more specifically, trade-distorting policies, it is important to underline that, although certain effects are not yet clearly observable in some indicators where impacts had been expected (such as the inflation rate in the United States, at least not in an evident manner), from the perspective of trade flows the effects are already apparent.

The latest monthly data on US goods imports show that, compared with the same period of the previous year, recent months have seen a contraction in imports relative to the levels recorded at the beginning of the year. This pattern may reflect the front-loading of purchases for selected goods in anticipation of the

⁷ World Bank. 2024a. Global Economic Prospects. January. Washington, DC: World Bank.

⁸ World Bank. 2022. Commodity Markets Outlook. April. Washington, DC: World Bank.

⁹ World Bank. 2025a. Global Economic Prospects. January. Washington, DC: World Bank.

¹⁰ World Bank. 2015. Commodity Markets Outlook. October. Washington, DC: World Bank.

¹¹ Koh, W. C., and S. Yu. 2020. "Macroeconomic and Financial Sector Policies." In A Decade After the Global Recession: Lessons and Challenges for Emerging and Developing Economies, edited by M. A. Kose and F. Ohnsorge, 209-53. Washington, DC: World Bank.

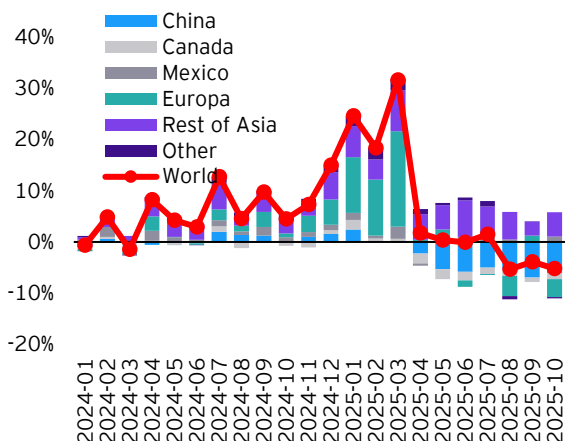
¹² Mawejje, J. 2025. Fiscal Vulnerabilities in Low-Income Countries: Evolution, Drivers, and Policies. Washington, DC: World Bank.

¹³ World Bank. 2021. Global Economic Prospects. January. Washington, DC: World Bank.

implementation of the new US administration's aggressive trade policies.

The contraction observed is primarily driven by a decline in imports from China and Europe, while the positive contribution of other Asian economies to import growth remains in place.

Figure 13: Goods imports by country of origin, USA - YoY change and contributions



Source: EY-Parthenon calculations based on UN Comtrade data.

In this context, it is important to highlight the differences between current US trade policy and that implemented in the pre-pandemic period. During the 2018-19 biennium, the United States imposed tariffs on just under 18% of imports, primarily from China, raising effective tariff rates for the latter from 3% to 11%. These measures significantly increased costs for US consumers and firms, with an almost complete pass-through to import prices, higher consumer prices, supply chain disruptions and adverse effects on the labour market.

The 2025 trade war instead represents a qualitatively different shock. Tariffs now affect the majority of products imported from abroad and of trading partners, with overall effective rates of 19% and above 40% for China. This may result in a sharp increase in input costs across a wide range of industrial supply chains. Early evidence suggests only partial absorption of higher costs by exporters, alongside a potentially significant pass-through to US consumer prices. The recent and unexpected depreciation of the US

dollar also departs from historical experience and could entail more pronounced effects on the trade balance.¹⁴

Turning to commodities, the new conflict in the Middle East and the reduction in traffic through the Strait of Hormuz are generating sizeable short-term effects on energy prices – and beyond – and may also have medium-term implications, given the possibility of structural impacts on oil and gas production. The strategic relevance of the region for global energy markets and of the Strait of Hormuz for international trade will be discussed in greater detail in a dedicated section.

In February 2026, the price of oil, and more precisely Brent, recorded an average quotation of 71.1 \$/bbl,¹⁵ after having recorded, in the previous two months, quotations equal to 66.8 \$/bbl and 62.7 \$/bbl, respectively. The latest Brent data indicate a quotation of 102.9 \$/bbl (16 March 2026, 103.4 \$/bbl between 12 and 19 March).

With reference to natural gas quoted on the European market, this recorded, in February 2026, a value of 11.2 \$/mmbtu,¹⁶ down compared to the figure recorded in January (11.8 \$/mmbtu). The conflict in the Middle East has, however, led to a significant increase in natural gas quotations, visible in futures prices, which have recorded almost a doubling of quotations.¹⁷

For energy commodities, it is also crucial to consider that the ongoing conflict is already leading, and may continue to lead, to physical destruction of supply. The attacks on the South Pars and Ras Laffan oil facilities clearly illustrate the risks posed to oil and natural gas supply, raising the possibility that prices could remain elevated for a prolonged period.

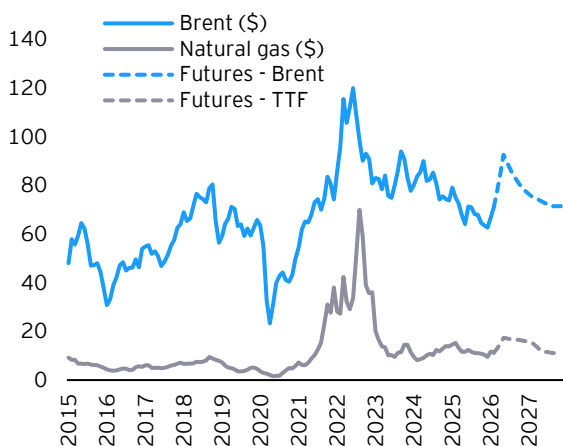
Agricultural commodity prices, after rising between the final months of 2024 and the early months of 2025, are currently on a downward trajectory. Nevertheless, the ongoing crisis in the Middle East constitutes an upside risk for agricultural prices over the medium term, mainly

¹⁴ Carpinelli, L., Santoro, S. (2025). An examination of the domestic macroeconomic consequences of the United States' trade policies. *Questioni di Economia e Finanza (Occasional Papers)*, numero 965.
¹⁵ US dollars per barrel of crude oil. One barrel is equivalent to approximately 159 litres.

¹⁶ US dollars per million British thermal units, a measure of the quantity of gas.
¹⁷ Prices refer to TTF futures contracts. For further details, <https://www.ice.com/products/27996665/Dutch-TTF-Natural-Gas-Futures>.

through potential increases in transportation and fertiliser costs.¹⁸

Figure 14: Energy commodity prices (\$) and futures (2010=100)



Source: EY-Parthenon calculations based on World Bank data. Brent and natural gas prices are expressed respectively in \$/bbl and \$/mmbtu. The natural gas price refers to natural gas quoted at the Title Transfer Facility (TTF). Futures data are calculated as a 15-day average of quarterly values, in order to reduce daily volatility. Latest available data: February 2026.

Finally, base metal prices continue to follow a strong upward trajectory. In February 2026, they rose by 28% compared with the same month of the previous year. The increase spans most major index components (including aluminium, copper and tin), with the sole exception of lead. These price dynamics reflect a combination of demand- and supply-side factors. On the demand side, the energy transition, the reinforcement of electricity grids, and the rapid expansion of data centres driven by technological advances – notably artificial intelligence – are key drivers.

On the supply side, the United States and the United Kingdom banned the trading of newly produced Russian aluminium, copper and nickel on major metal exchanges from April 2024; in addition, the accumulation of copper inventories in some countries in anticipation of heightened geopolitical tensions has generated relative scarcity elsewhere.

Overall, the geopolitical and economic environment remains highly complex and potentially subject to further deterioration as a

result of the renewed conflict with Iran. Growth prospects are exposed to developments in commodity prices, trade-distorting measures, and their possible future escalation.

Growth in the major global economies: latest data

Economic developments across the major global economies continue to display a high degree of heterogeneity, including in the short term.

United States

US GDP grew by 0.4% in the fourth quarter of 2025 (1.4% at an annualised rate¹⁹), following quarter-on-quarter growth of 1.1% in the third quarter.

This outcome largely reflects positive contributions from private consumption (quarter-on-quarter growth of 0.6%, corresponding to a contribution of 0.4 percentage points) and private investment (growth of 0.9%, contributing 0.2 percentage points). Net exports of goods and services made a broadly neutral contribution (around 0 percentage points), while government consumption and public investment exerted a negative contribution of approximately 0.2 percentage points.²⁰

Regarding price dynamics, inflation in the United States remains above the Federal Reserve's price stability objective (2.0%), albeit on a declining trajectory, standing at 2.4% in January 2026, after 2.7% in December and November 2025. A slightly different pattern is observed for the Personal Consumption Expenditure Price Index, which has edged up in recent months relative to mid-2025.²¹

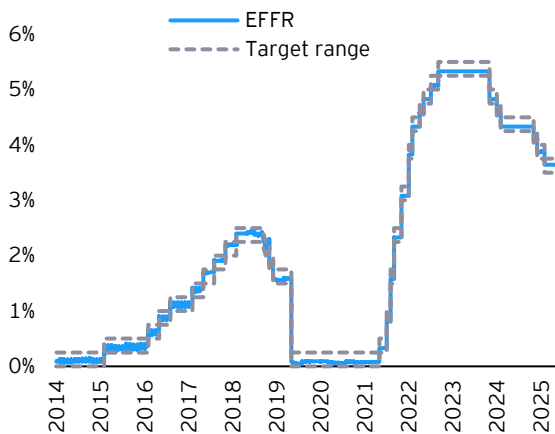
¹⁸ UNCTAD (2026). Strait of Hormuz disruptions: Implications for global trade and development, <https://unctad.org/publication/strait-hormuz-disruptions-implications-global-trade-and-development>.

¹⁹ For further details, <https://www.bea.gov/help/faq/463>.

²⁰ GDP (Advance Estimate), 4th Quarter and Year 2025, <https://www.bea.gov/news/2026/gdp-advance-estimate-4th-quarter-and-year-2025>.

²¹ For further details, <https://www.bea.gov/data/personal-consumption-expenditures-price-index>.

Figure 15: Federal Reserve policy reference rates, United States



Source: EY-Parthenon calculations based on Federal Reserve Bank of New York data. EFFR: Effective Federal Funds Rate; the EFFR is calculated as the volume-weighted median of reported overnight transactions. For further information, <https://www.newyorkfed.org/markets/reference-rates/effr>.

In a context of overall solid economic growth combined with heightened uncertainty stemming from the international environment, the Federal Reserve decided at its latest meeting on 18 March to keep interest rates unchanged within a range of 3.50%-3.75%.²² This decision followed a similar outcome at the end of January, when policy rates were also left unchanged.²³ Expectations for upcoming meetings remain uncertain, as they may be influenced by developments related to the US-Iran war, including its duration, the magnitude of impacts on energy prices, and the pass-through of higher energy costs to inflation. In addition, it should be noted that the term of the current Federal Reserve Chair will expire in May 2026, potentially marking a turning point in monetary policy conduct.

In any event, the Federal Reserve's monetary policy decisions are being taken against a backdrop of uncertain economic conditions and a moderating labour market. In this regard, it should be recalled that the US central bank operates under a dual mandate of maximum employment and price stability.

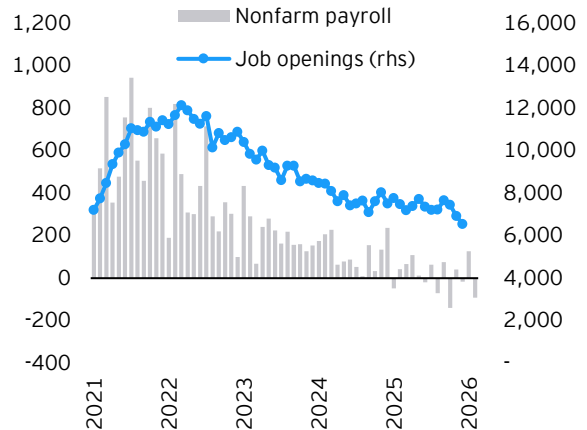
Indeed, labour market conditions appear to be easing. In December, employment declined by

²² Federal Reserve issues FOMC statement, 18 March 2026, <https://www.federalreserve.gov/newsevents/pressreleases/monetary20260318a.htm>.

²³ Federal Reserve issues FOMC statement, 28 January 2026, <https://www.federalreserve.gov/newsevents/pressreleases/monetary20260128a.htm>.

92,000 units, following an increase of 126,000 in the previous month. This trend is mirrored in job openings, which, after remaining broadly stable since mid-2024, have decreased in recent months. The unemployment rate remains broadly stable at levels above 4%.²⁴

Figure 16: Change in nonfarm payrolls and job openings - USA



Source: EY-Parthenon calculations based on Bureau of Labor Statistics (BLS) data. Nonfarm payroll refers to the number of US workers in the economy excluding business owners, household employees, unpaid volunteers, farm employees, and self-employed individuals not incorporated. This measure represents around 80% of workers contributing to Gross Domestic Product (GDP). For further information, <https://fred.stlouisfed.org/series/PAYEMS>.

Turning to recent economic developments, the latest data indicate that consumption expenditure decelerated in December 2025, rising by 0.1% compared to the previous month, after weak growth of 0.2% in November.²⁵ This subdued performance primarily reflects a contraction in spending on goods (-0.5% in December, after growth of 0.3% in November and modest growth of 0.1% in October), alongside continued expansion in spending on services (0.3%, up from 0.1% in the previous month).

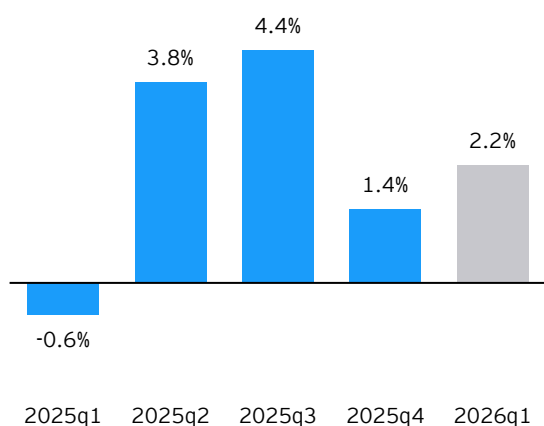
Industrial and manufacturing activity remains subdued. In January 2026, industrial production rose by 0.7% month on month, following weaker growth of 0.2% in December 2025 and 0.1% in November. A similar pattern is observed in manufacturing output, which increased by 0.6% in December, after stagnation in the previous month

²⁴ Bureau of Labor Statistics, Employment Situation News Release. For further details, <https://www.bls.gov/news.release/empsit.toc.htm>.

²⁵ Personal Income and Outlays, December 2025. For further details, <https://www.bea.gov/news/2026/personal-income-and-outlays-december-2025>.

and growth of 0.3% in November. On a year-on-year basis, both industrial production and manufacturing output show relatively favourable dynamics, expanding by 2.3% and 2.4%, respectively.²⁶

Figure 17: GDP, USA - % change QoQ annualised



Source: EY-Parthenon calculations based on Federal Reserve Bank of New York, U.S. Bureau of Economic Analysis (BEA) data. Grey bars represent available forecasts for upcoming quarters (New York Fed Staff Nowcast). Growth rates are annualised. Latest update: 9 March 2026.

Looking ahead, the Federal Reserve Bank of New York's March 2026 projections point to average GDP growth over the next four quarters within a range of 0.1% to 3.5%, with a median projection of 1.9%,²⁷ suggesting continued economic dynamism.

In addition, short-term forecasts from the New York Fed indicate an annualised growth rate²⁸ of 2.2% for the first quarter of 2026.²⁹

In assessing prospects for the US economy, recent and rapidly evolving trade policy decisions warrant close attention, as they constitute an additional source of uncertainty for both the domestic and global economy. The effective tariff rate currently applied by the United States towards the rest of the world stands at around 14%, a level that is significant given its potential adverse implications for growth and inflation.

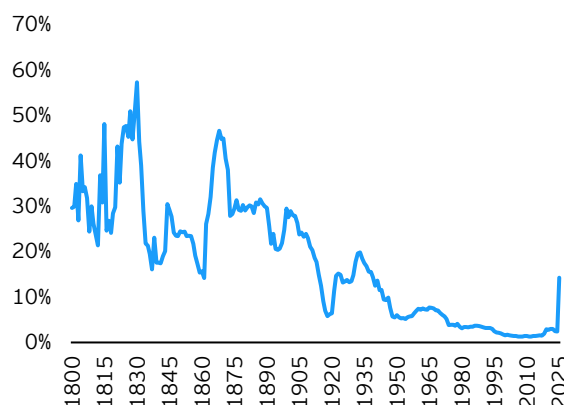
²⁶ Industrial Production and Capacity Utilization, January 2026. For further details, <https://www.federalreserve.gov/releases/g17/current/default.htm>.

²⁷ Federal Reserve Bank of New York, Outlook-at-Risk: Real GDP Growth, Unemployment, and Inflation, <https://www.newyorkfed.org/research/policy/outlook-at-risk#root:growth-at-risk>.

²⁸ For further details, <https://www.bea.gov/help/faq/463>.

²⁹ For further details, <https://www.newyorkfed.org/research/policy/nowcast#/overview>.

Figure 18: Effective average tariff rate, USA



Source: EY-Parthenon calculations based on World Trade Organization, International Monetary Fund data. Latest update: February 2026.

United Kingdom

In the United Kingdom, GDP grew by 0.1% in the fourth quarter of 2025, matching the pace recorded in the third quarter and following slightly stronger growth of 0.2% in the second quarter of the year.

Fourth-quarter performance was primarily supported by growth in private consumption (0.2%), stronger government consumption (0.4%), and a positive contribution from investment.³⁰

High-frequency indicators, however, point to weak momentum. After quarter-on-quarter growth of 0.1% and 0.2% in November and December 2025, respectively, the services sector recorded stagnation in January.³¹

The construction sector shows a slight expansion, with growth of 0.2%, after three consecutive months of contraction (respectively -1.6%, -0.8% and -0.5% between October and December 2025).³² As regards industry, January recorded a slight contraction of 0.1%, following a

³⁰ GDP first quarterly estimate, UK: October to December 2025, <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/octobertodecember2025>.

³¹ Office for National Statistics, Index of Services, UK: January 2026, <https://www.ons.gov.uk/economy/economicoutputandproductivity/output/bulletins/indexofservices/january2026>.

³² Office for National Statistics, Construction output in Great Britain: January 2026, <https://www.ons.gov.uk/businessindustryandtrade/constructionindustry/bulletins/constructionoutputingreatbritain/january2026>.

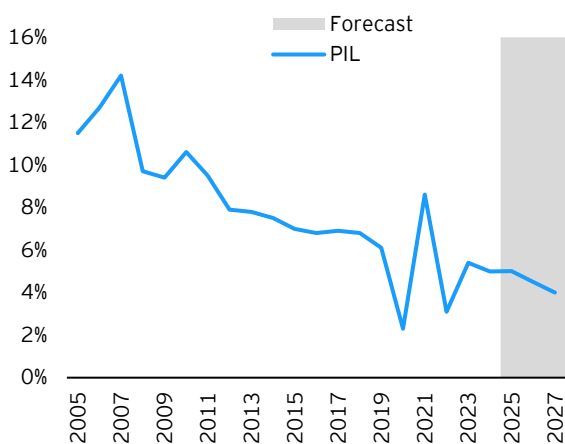
sharper contraction in December (-0.9%) and strong growth in November 2025 (1.3%).³³

With regard to prices, inflation eased to 3.2% in January, down from 3.6% in December 2025 and 3.5% in November. Inflation remains elevated but on a downward path relative to 2025 levels. Core inflation is also still high, at 3.3%, after 3.5% in December 2025.³⁴

China

Recent developments in the Chinese economy point to a gradual slowdown. This trend extends beyond recent GDP outcomes and forecasts for 2027 (with the International Monetary Fund projecting growth of 4.5% in 2026 and 4.0% in 2027) and reflects a structural deceleration underway since the period following the 2008 financial crisis.

Figure 19: GDP, China - % change



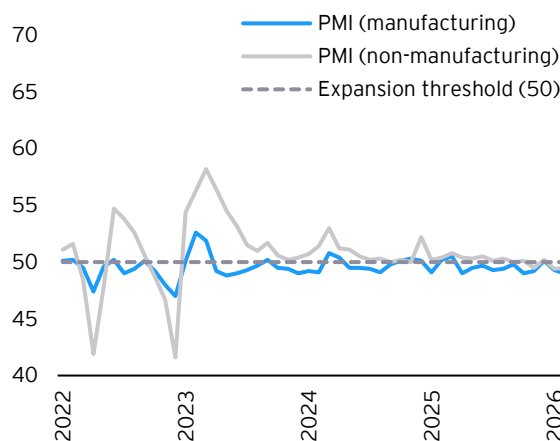
Source: EY-Parthenon calculations based on International Monetary Fund data and forecasts.

According to the latest data, China recorded year-on-year GDP growth of 4.5% in the fourth quarter of 2025, following growth of 4.8% in the third quarter and 5.2% in the second quarter. On a quarter-on-quarter basis, GDP expanded by

1.2% in the fourth quarter, compared with growth of 1.1% and 1.0% in the third and second quarters, respectively.³⁵

Industrial activity shows signs of moderation relative to the first half of 2025. In December, industrial value added increased by 5.2% year on year, after growth of 4.8% in November. While this marks an improvement compared with previous months, the pace remains lower than that observed earlier in 2025.³⁶

Figure 20: Purchasing Managers Index (PMI), manufacturing and non-manufacturing activity, China



Source: EY-Parthenon calculations based on National Bureau of Statistics of China data. Latest available data: February 2026.

Regarding business expectations, the PMI published by the National Bureau of Statistics of China indicates readings broadly consistent with the expansion threshold of 50, notwithstanding some month-to-month fluctuations.³⁷

The real estate sector remains under severe stress, with investment contracting by 17.2% in 2025 compared to 2024.³⁸

Looking at total investment, growth in 2025 was negative, with a contraction of 3.8%, continuing a downward trend that has persisted since May 2025.³⁹

³³ Office for National Statistics, Index of Production, UK: January 2026, <https://www.ons.gov.uk/economy/economicoutputandproductivity/output/bulletins/indexofproduction/january2026>.

³⁴ Office for National Statistics, Consumer price inflation, UK: January 2026, <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/january2026>.

³⁵ Preliminary Accounting Results of GDP for the Fourth Quarter and Full Year of 2025, https://www.stats.gov.cn/english/PressRelease/202601/t20260121_1962363.html.

³⁶ Industrial Production Operation in December 2025, https://www.stats.gov.cn/english/PressRelease/202601/t20260120_1962350.html.

³⁷ Purchasing Managers' Index for February 2026, https://www.stats.gov.cn/english/PressRelease/202603/t20260305_1962714.html.

³⁸ Investment in Real Estate Development for 2025, https://www.stats.gov.cn/english/PressRelease/202601/t20260120_1962353.html.

³⁹ Investment in Fixed Assets in 2025, https://www.stats.gov.cn/english/PressRelease/202601/t20260120_1962351.html.

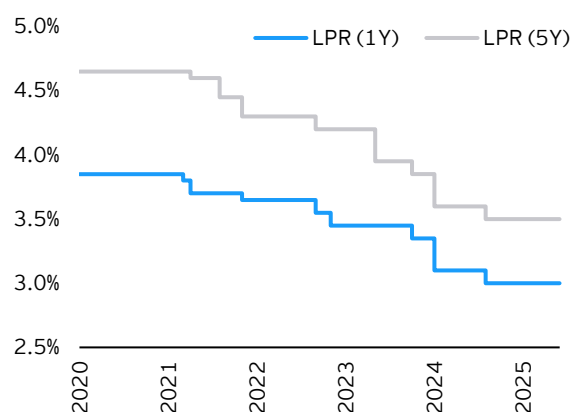
With regard to retail sales, December 2025 recorded annual growth (compared to the same month of the previous year) of 0.9%, lower than that recorded in November (1.3%) and October (2.9%).⁴⁰ From the external trade perspective, exports recorded year-on-year growth of 5.2% in December 2025, alongside an increase in imports of 4.4%.⁴¹

Taken together, these developments indicate that the Chinese economy is experiencing a slowdown in growth, to which authorities are responding through targeted fiscal and monetary measures.⁴²

From a monetary policy standpoint, policy rates remain low compared to historical levels, even during the period in which major central banks globally pursued restrictive stances to contain inflation. As of March 2026, the one-year and five-year Loan Prime Rates (LPRs) stand at 3.00% and 3.50%, respectively. The Medium-term Lending Facility (MLF) rate remains unchanged at 2.00%.⁴³

The slowdown of the Chinese economy is expected to continue, highlighting the need to reform the growth model. Among the main challenges to consider are demographic factors (population ageing will reduce the labour force),⁴⁴ slowing productivity growth (given the transition towards advanced economy status),⁴⁵ as well as diminishing returns on investment, which, fuelled by savings (now at historical highs), are increasingly directed towards less productive sectors such as real estate.

Figure 21: Loan Prime Rate (LPR) at 1 and 5 years, China



Source: EY-Parthenon calculations based on People's Bank of China data. Latest available data: March 2026.

These factors suggest the need to rebalance the Chinese growth model towards one increasingly driven by private consumption. In the absence of reforms, potential growth could decline to around 3.8% on average between 2025 and 2030 and to 2.8% on average between 2031 and 2040. However, under a hypothetical reform scenario, potential growth could remain around 4.7% between 2023 and 2038.⁴⁶

Overall, the international environment is increasingly shaped by new geopolitical challenges following the renewed conflict in the Middle East. These compound existing sources of uncertainty, including protectionist trade policies in the United States, the risk of escalation on other geopolitical fronts, and rising energy prices, all of which carry the potential for renewed global inflationary pressures.

⁴⁰ Total Retail Sales of Consumer Goods in December 2025, https://www.stats.gov.cn/english/PressRelease/202601/t20260120_1962354.html.

⁴¹ For further details, <http://english.customs.gov.cn/statics/report/preliminary.html>. On an annual basis, exports increase by 6.6% when measured in US dollar terms, while imports register a rise of 5.7%.

⁴² The State Council Information Office of the People's Republic of China, "China vows 'highly proactive' fiscal policy to shore up economy". For further details, http://english.scio.gov.cn/pressroom/2025-01/11/content_117658569.html.

⁴³ For further details,

<http://www.pbc.gov.cn/en/3688229/3688335/3883798/index.html>.

⁴⁴ International Monetary Fund (IMF). 2017. "Asia: At Risk of Growing Old before Becoming Rich?" Chapter 2 in Asia and Pacific Regional Economic Outlook: Preparing for Choppy Seas. May 2017: Washington, DC.

⁴⁵ Madsen, Jakob B., Md. Rabiul Islam, and James B. Ang. 2010. "Catching Up to the Technology Frontier: The Dichotomy Between Innovation and Imitation." Canadian Journal of Economics 43(4): 389-1411.

⁴⁶ Muir, D., Novta, N., & Oeking, A. (2024). China's Path to Sustainable and Balanced Growth. IMF Working Paper WP/24/238, 2024 Nov.

The European outlook

The Eurozone economic outlook and short-term indicators

Following quarter-on-quarter GDP growth of 0.3% in the third quarter of 2025, the Eurozone recorded slightly more moderate growth of 0.2% in the fourth quarter. This outcome reflects GDP growth of 0.8% in Spain, 0.3% in both Italy and Germany, and 0.2% in France.

From a year-on-year perspective, comparing the fourth quarter of 2025 with the same quarter of the previous year, Eurozone GDP expanded by 1.2%, down from the rates recorded in the preceding two quarters (1.6% and 1.4% in the second and third quarters, respectively). Here again, the aggregate figure reflects robust growth in Spain (2.6%) alongside positive but more moderate growth in France, Italy and Germany (1.2%, 0.8% and 0.4%, respectively).

Figure 22: GDP growth and contributions by country, Eurozone - % change, YoY

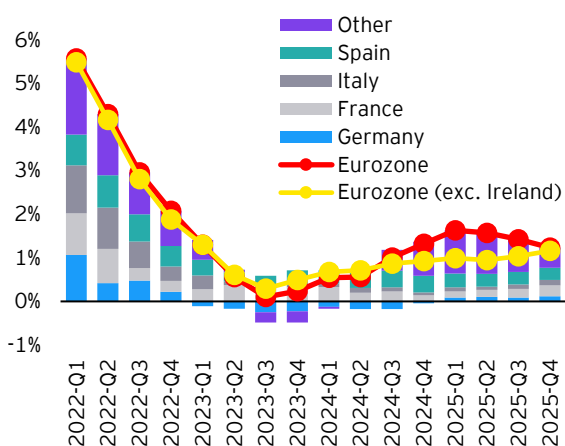
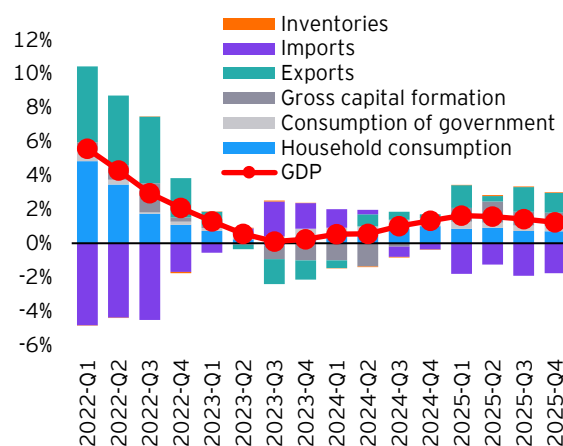


Figure 23: GDP growth and contributions by component, Eurozone - % change, YoY



Source: EY-Parthenon calculations based on Eurostat data.

From the expenditure-side perspective, growth in the fourth quarter of 2025 was mainly driven by private consumption and investment, which contributed positively to GDP growth by 0.7 and 0.8 percentage points, respectively. Public consumption also made a positive contribution (0.3 percentage points), while net external demand weighed on growth (-0.6 percentage points), reflecting import growth that exceeded that of exports.

Industrial production in the Eurozone declined by 0.5% in January 2026, following strong growth in October, November and December of 2.1%, 2.3% and 2.1%, respectively. Despite this recent contraction, the index remains around 3 percentage points below its average level in 2021.

Year-on-year developments in industrial production continue to differ markedly across the main euro area economies. In particular, Germany's industrial production index recorded a contraction of 1.5% in January, followed by a decline of 0.5% in Italy. By contrast, industrial output was weakly positive in Spain (0.2%) and more robust in France (2.4%, following growth of 1.7%).

Figure 24: Industrial production by major countries, Eurozone - index, 2021=100

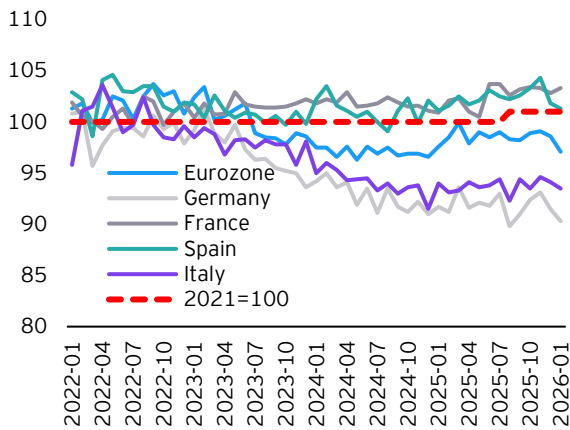
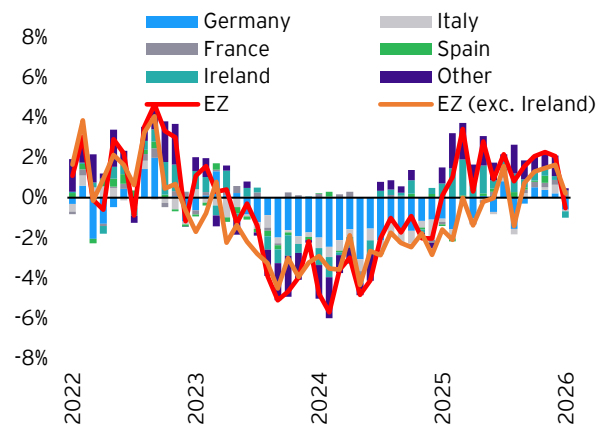


Figure 25: Industrial production - % change, YoY and components by major countries



Source: EY-Parthenon calculations based on Eurostat data. Industrial production refers to NACE Rev. 2 codes B-D (Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply). Latest available data: January 2026.

Looking at the main categories of industrial output, consumer goods recorded a sharp year-on-year contraction of 6.3% in January, following a much smaller decline in December (-0.7%) and strong growth in November (3.3%). Intermediate goods production also contracted on a year-on-year basis (-1.9%), while capital goods production continued to expand, posting growth of 1.7% in January after increases of 4.6% in December and 3.3% in November.

Turning to other short-term indicators, Purchasing Managers' Indices (PMIs)⁴⁷ for manufacturing and services provide timely insights into sectoral developments. In manufacturing, sentiment among operators has improved across the four largest Eurozone economies, with Germany, France and Italy all reporting readings close to the expansion threshold. Services sector sentiment also appears broadly positive, with PMI values for the main countries above or around the 50-point reference threshold.

Figure 26: Purchasing Managers Index (PMI), manufacturing

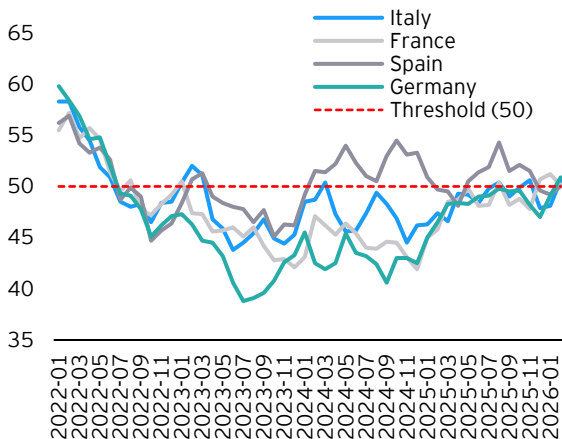
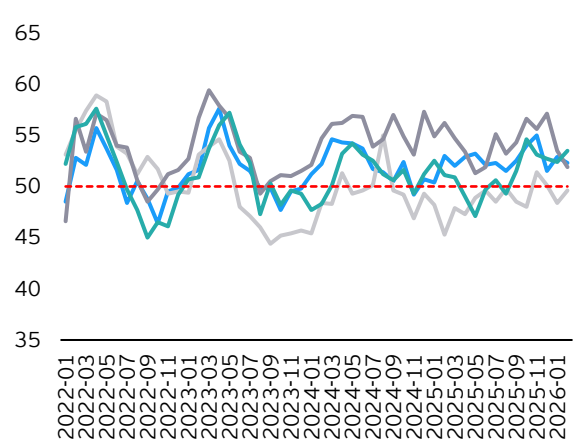


Figure 27: Purchasing Managers Index (PMI), services



Source: EY-Parthenon calculations based on S&P Global data. Latest available data: February 2026.

⁴⁷ The Purchasing Managers' Index (PMI) is one of the most widely used business cycle indicators, providing a timely signal of the prevailing direction of economic activity in the manufacturing, construction and services sectors. It is derived from high-frequency surveys conducted among a representative sample of firms in the relevant sectors. PMI readings above 50 indicate an expansion in economic activity, while values below 50 signal a contraction.

Monetary policy and prices in the Eurozone

The elevated complexity and uncertainty characterising the current geopolitical environment represent key challenges for monetary policy in the Eurozone and globally. Developments related to the conflict in the Middle East, and their implications for oil prices and transport costs along strategic routes, constitute a primary focus for policymakers. In particular, three main dimensions require careful assessment: (i) the duration of the shock; (ii) its magnitude; and (iii) the degree of pass-through of higher energy costs to final consumer prices. While reliable and definitive information on these aspects remains limited at this stage, central banks are expected to maintain a data-dependent approach, closely monitoring external developments and adjusting policy as warranted.

In this context, on 19 March 2026 the European Central Bank decided to leave its key policy interest rates unchanged,⁴⁸ taking into account the overall macroeconomic environment and upside risks to energy prices associated with the Middle East conflict. Updated staff projections point to inflation, as measured by the Harmonised Index of Consumer Prices, of 2.6% in 2026, 2.0% in 2027 and 2.1% in 2028.⁴⁹ Accordingly, the interest rates on the main refinancing operations, the marginal lending facility and the deposit facility remain at 2.15%, 2.40% and 2.00%, respectively.⁵⁰ This decision followed the similar outcome of the 5 February meeting, when policy rates were also kept unchanged.⁵¹

Figure 28: ECB monetary policy reference interest rates

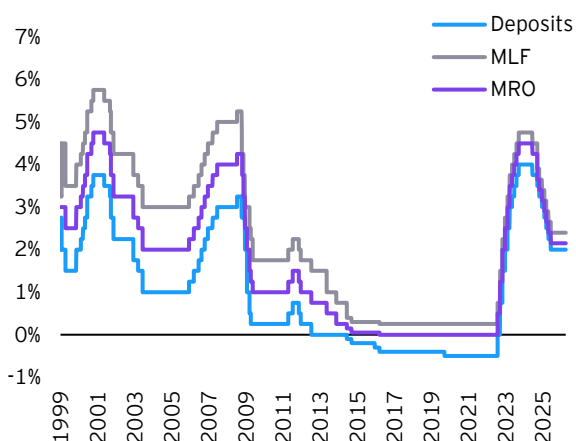
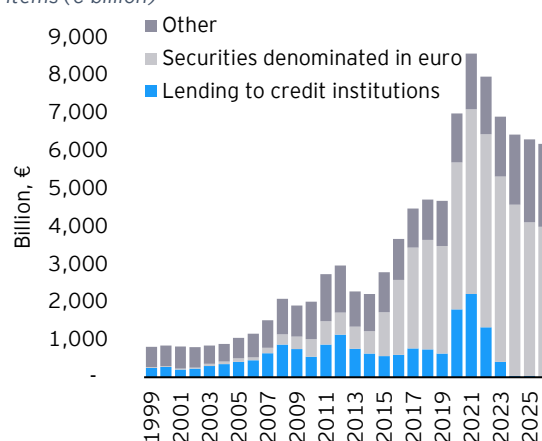


Figure 29: European Central Bank main balance sheet items (€ billion)



Source: EY-Parthenon calculations based on European Central Bank (ECB) data. MLF = marginal lending facility; MRO = main refinancing operations. The deposit rate refers to deposits held at the central bank. Balance sheet items - loans to credit institutions: loans to euro area credit institutions related to monetary policy operations denominated in euro are considered (including MROs and LTROs); euro-denominated securities: euro-denominated securities of euro area residents are considered (including assets acquired for monetary policy purposes); other: includes, among others, gold and foreign-currency-denominated claims on euro area residents and non-residents. The latest available data for 2025 refer to the weekly financial statement of 13 March 2026.

The decision to maintain interest rates reflects a broader assessment of the current outlook and its potential evolutions. In this respect, the ECB presented two alternative scenarios – an adverse and a severe scenario – characterised by stronger increases in energy prices, outlining the corresponding implications for the Eurozone economy.

⁴⁸ ECB, Monetary policy decisions, 19 March 2026. For further details, <https://www.ecb.europa.eu/press/pr/date/2026/html/ecb.mp260319~3057739775.en.html>.

⁴⁹ ECB staff macroeconomic projections for the euro area, March 2026, https://www.ecb.europa.eu/press/projections/html/ecb.projections202603_ecbstaff~ebe291cd3d.en.html.

⁵⁰ The interest rate on deposits held at the central bank is one of the three key policy rates set by the ECB every six weeks as part of its monetary policy decisions. This rate defines the remuneration that banks receive on their overnight deposits (i.e. for a single business day) held with the central bank. The other two key policy rates are the rate on main refinancing operations (MRO) and the rate on the marginal lending facility (MLF). The MRO rate determines the cost at which banks can obtain liquidity from the central bank with a maturity of one week. If banks require overnight liquidity, they can access the marginal lending facility at a higher interest rate. For further details, https://www.ecb.europa.eu/stats/policy_and_exchange_rates/key_ecb_interest_rates/html/index.it.html.

⁵¹ ECB, Monetary policy decisions, 5 February 2026. For further details, <https://www.ecb.europa.eu/press/pr/date/2026/html/ecb.mp260205~001d26959b.en.html>.

In an environment of heightened uncertainty, it is crucial to recognise that monetary policy must account for the diverse and non-uniform ways in which uncertainty affects the economy. When uncertainty arises from more frequent shocks, non-linear macroeconomic relationships or incomplete information, the transmission and effectiveness of monetary policy may differ and, in some cases, become non-linear. Situations characterised by a steeper Phillips curve or by precautionary behaviour on the part of households and firms are examples in which uncertainty can amplify shocks and alter the sensitivity of real activity to interest rates. As a result, the monetary policy stance cannot rely exclusively on the central scenario, but must consider the full distribution of risks and the implications of different sources of uncertainty for both inflation and economic activity.⁵²

Overall, the restrictive monetary policy cycle implemented since mid-2023, combined with a partial easing of some external factors such as commodity price dynamics, has proved effective in steering inflation back towards target.

Figure 30: Inflation rate, Eurozone - % change, YoY

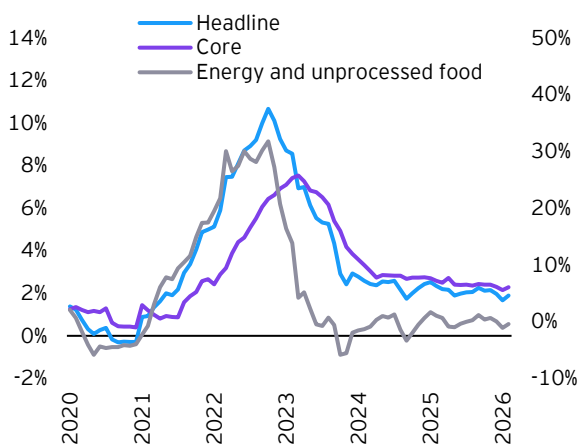
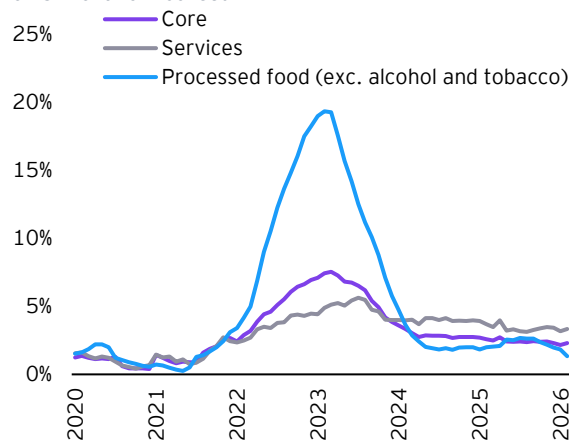


Figure 31: Inflation rate, Eurozone - % change, 3-month on 3-month annualised



Source: EY-Parthenon calculations based on Eurostat data. The headline measure includes all goods in the price basket; the core measure excludes energy and fresh food from the headline basket. Rates refer to harmonised indices. Latest available data: January 2026.

The persistence of core inflation partly reflects, among other elements, the sustained strength of labour market conditions in the services sector. Wage growth in services continues to play a key role in shaping price dynamics in this sector, with potentially lasting effects on the overall price level.

While services prices therefore remain an important driver of underlying inflation persistence in the Eurozone, these pressures have shown signs of easing in recent months. In this regard, the ECB wage tracker is a useful high-frequency indicator, based on a detailed dataset of collective wage agreements between trade unions and employers' associations.⁵³ One of the advantages of the indicator is its ability to provide timely information, including on recently implemented agreements.⁵⁴ Although it is not a forecasting tool, it provides timely information that may anticipate developments in official statistics. Data covering agreements signed up to November 2025 point to a moderation in wage pressures towards the

⁵² Guglielminetti, E., Lin, A., Tiseno, A. (2025). The many shades of uncertainty and monetary policy. *Questioni di Economia e Finanza* (Occasional Papers), numero 978.

⁵³ The headline "ECB wage tracker" aims to track the annual growth of employees' salaries at any point in time and includes one-off payments smoothed over the twelve months that follow each payment. As one-off payments can make series very volatile, smoothing them renders the series easier to interpret and more aligned to their economic intent (that they cover a period of time even if they are disbursed in one payment). The ECB wage tracker also publishes an indicator with unsmoothed one-off payments.

⁵⁴ Lane, P. (2024), "[Underlying inflation: an update](#)", Speech at the Inflation: Drivers and Dynamics Conference 2024 organised by the Federal Reserve Bank of Cleveland and the ECB; Bing, M., S. Holton, G. Koester, and M. Roca I Lledot (2024): "[Tracking euro area wages in exceptional times](#)", ECB Blog post, 23 May 2024; Gornicka, L. and G. Koester (eds) (2024): "[A forward-looking tracker of negotiated wages in the euro area](#)", Occasional Paper Series, No 338, ECB.

end of the year. This moderation appears less pronounced when excluding “one-off payments”⁵⁵ granted in 2024 to address specific needs and no longer disbursed in 2025.⁵⁶

Figure 32: Real wages in the services sector, Eurozone - index, 2015=100

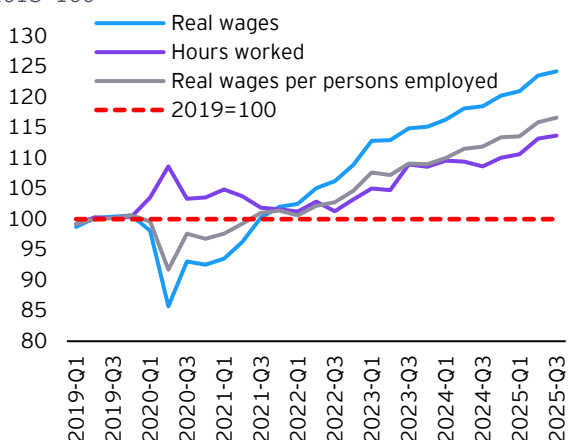
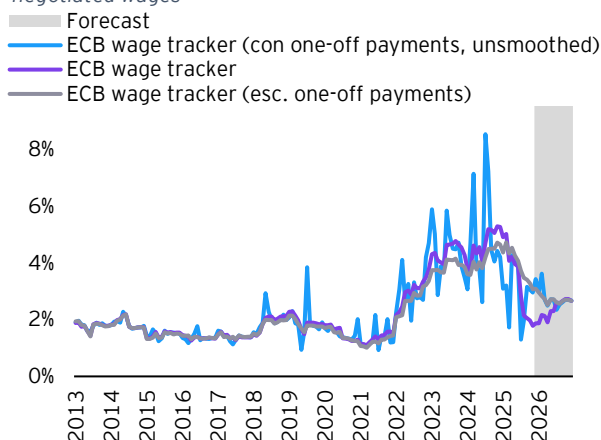


Figure 33: ECB wage tracker, Eurozone - growth of negotiated wages



Source: EY calculations based on Eurostat and European Central Bank data.

Inflation dynamics are also influenced by fiscal conditions, notably public debt levels. A recent ECB study analysing the interaction between fiscal policy and inflation in the Eurozone shows that the inflationary impact of fiscal expansions depends on the level of public debt,⁵⁷ with higher debt ratios tending to amplify price responses. Public debt-to-GDP ratios in Eurozone countries increased markedly following the fiscal responses to the pandemic and the energy crisis, remaining well above pre-pandemic levels.

Moreover, medium- to long-term spending pressures are emerging from higher defence expenditure and from the need to address structural challenges such as the climate transition and population ageing. In this context, the risk increases that public debt ratios may not stabilise over the medium term, but instead continue on an upward path. This phenomenon, however, is not confined to the Eurozone, as rising public debt is a broader global trend among advanced economies.⁵⁸ It should nevertheless be noted that ECB asset purchase programmes have helped maintain a long average maturity of sovereign debt issuance, alleviating short-term refinancing risks.⁵⁹

⁵⁵ For further details, https://www.ecb.europa.eu/press/pr/date/2024/html/ecb.pr241218_1~1acca7fac8.en.html.

⁵⁶ New data release: ECB wage tracker suggests lower wage growth and gradual normalisation of negotiated wage pressures in 2026, https://www.ecb.europa.eu/press/pr/date/2025/html/ecb.pr251219_1~680ae819a9.en.html.

⁵⁷ With reference to the relationship between public debt and inflation, according to the so-called Fiscal Theory of the Price Level, an expansionary fiscal policy not accompanied by higher expected future primary surpluses leads economic agents to perceive an increase in real wealth, resulting in higher consumption and, consequently, higher prices. More broadly, if the present value of expected future primary surpluses is lower than the level of nominal public debt, the equilibrium price level is expected to rise (thereby reducing the real value of debt) in order to ensure fiscal solvency. For further details, Checherita-Westphal, C. D., & Pessô, T. (2024). Fiscal policy and inflation: accounting for non-linearities in government debt. ECB Working Paper Series No 2996.

⁵⁸ IMF Blog (2025), Debt is Higher and Rising Faster in 80 Percent of Global Economy. For further details, <https://www.imf.org/en/Blogs/Articles/2025/05/29/debt-is-higher-and-rising-faster-in-80-percent-of-global-economy>.

⁵⁹ Armendariz, S., Cabezon, E., Cui, M. L. Q., Domit, S., Iancu, A., Magistretti, G., ... & Wong, Y. C. (2024). *Taming Public Debt in Europe: Outlook, Challenges, and Policy Response* (No. 2024/181). International Monetary Fund. IMF Working Paper WP/24/181, 2024 Aug.

Figure 34: Change in public debt, Eurozone - percentage points

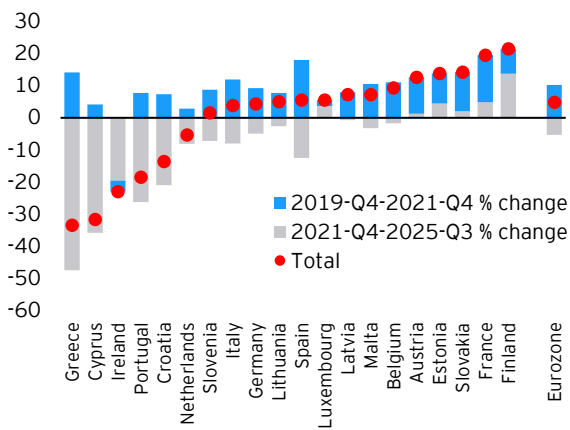
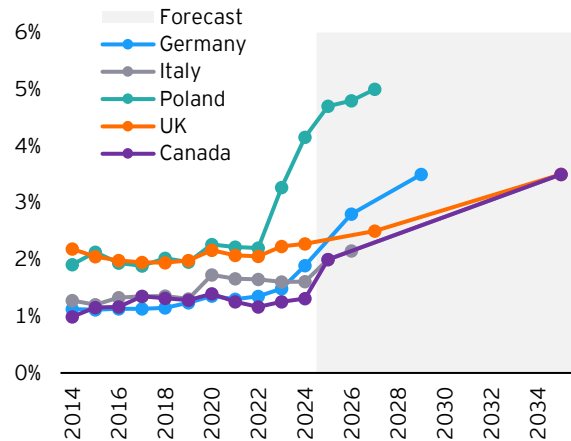


Figure 35: Military expenditure in selected countries and forecasts - % of GDP



Source: EY-Parthenon calculations based on OECD and European Central Bank data.

Beyond the labour market, inflation is also closely linked to bank credit dynamics. The effects of current interest rate levels on bank credit can be inferred from the latest edition of the Eurozone Bank Lending Survey,⁶⁰ which provides valuable insights.⁶¹

Figure 36: Bank lending supply conditions for firms, Eurozone - net percentage of respondents

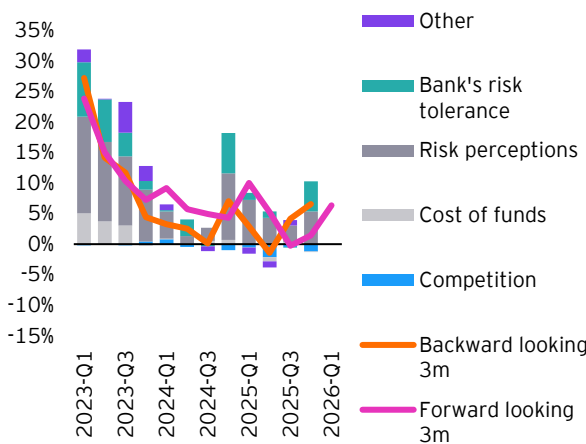
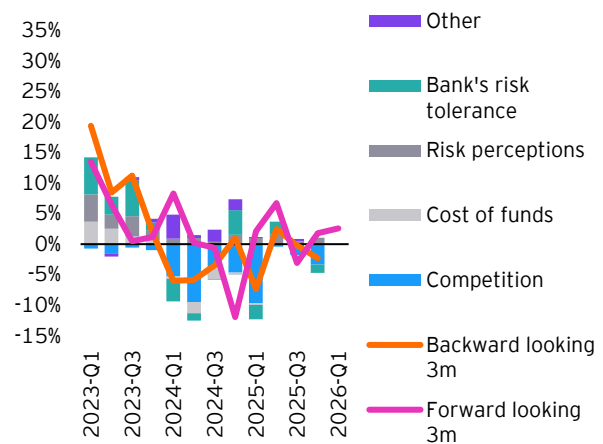


Figure 37: Bank lending supply conditions for households, Eurozone - net percentage of respondents



Source: EY-Parthenon calculations based on European Central Bank data (Bank Lending Survey). For households, reference is made to lending conditions for house purchase loans. Net percentages are defined as the difference between the sum of the percentages of banks reporting "tightened considerably" and "tightened somewhat" and the sum of the percentages of banks reporting "eased somewhat" and "eased considerably" with respect to changes in credit conditions. Net percentages for responses related to contributing factors are defined as the difference between the percentage of banks indicating that a given factor contributed to tightening and the percentage indicating that it contributed to easing.

In the fourth quarter of 2025, Eurozone banks reported an unexpected net tightening of credit standards for firms (net percentage of 7%), following a smaller but still notable tightening in the third quarter (4%), which exceeded earlier expectations. Since the start of the monetary policy easing phase in the third quarter of 2024, cumulative tightening has reached 19%. Among the largest euro area economies, standards tightened in Germany and France, while remaining unchanged in Spain and Italy.

⁶⁰ The Bank Lending Survey (BLS) has been conducted since January 2003 by the national central banks of euro area countries, in cooperation with the European Central Bank. It targets credit managers at the main banks operating in the area (around 150 institutions). The survey allows for a clear distinction between, on the one hand, the factors influencing credit supply as well as the terms and conditions applied to customers, and, on the other hand, developments in credit demand and the related underlying drivers.

⁶¹ The euro area bank lending survey - Third quarter of 2025.

The degree of tightening was broadly in line with the long-term average since 2003 (8%), though higher than the post-2014 average (3%). By firm size, tightening was more pronounced for large firms than for SMEs (net percentages of 6% and 2%, respectively), and by maturity, it affected both short-term and long-term loans (7% each). Key drivers included a deterioration in the perceived outlook for firms and the broader economy, alongside lower risk tolerance by banks. Sector-specific risks (10%) and the general macroeconomic outlook (7%) played a significant role, while changes in trade policy and related uncertainty also contributed. Conversely, banks' capital positions and competitive pressures were broadly neutral.

Looking ahead, banks expect a moderate further tightening of credit standards for firms in the first quarter of 2026 (net percentage of 6%), more pronounced for large firms and long-term loans. Expectations of tightening prevail in Germany and France, while standards are anticipated to remain unchanged in Spain and Italy.

For households, banks reported a slight net easing of credit standards for housing loans in the fourth quarter of 2025 (-2%), contrary to expectations of mild tightening. Standards tightened in Germany, eased in France, and were broadly stable in Spain and Italy. Competition exerted easing pressure, while heightened macroeconomic risk perceptions acted in the opposite direction. For the first quarter of 2026, banks expect a slight net tightening overall (+3%), with heterogeneity across countries.

Figure 38: Bank loans to households and firms, Eurozone - % change, YoY of quarterly average volumes

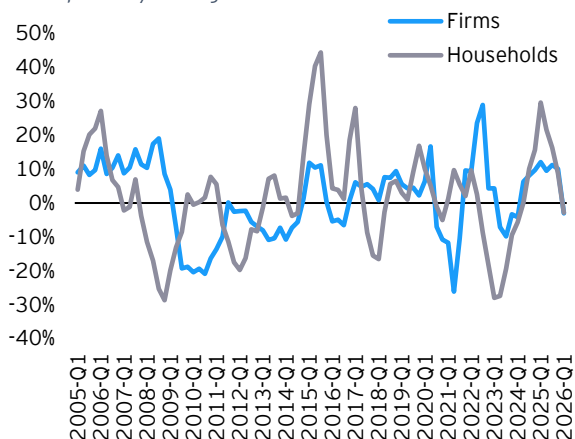
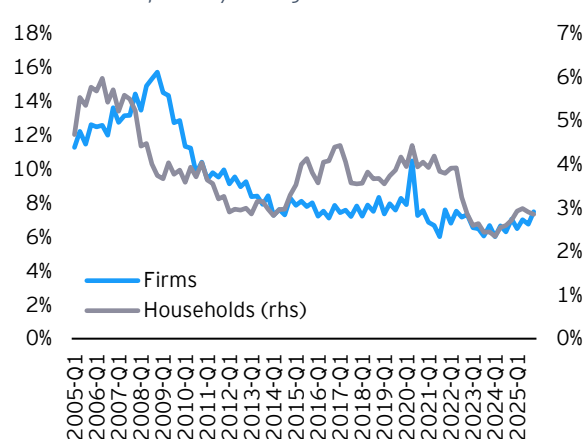


Figure 39: Bank loans to households and firms, Eurozone - % of GDP of quarterly average volumes



Source: EY-Parthenon calculations based on European Central Bank data.

The transmission of monetary policy through bank credit remains a key channel affecting investment, consumption and savings decisions, and therefore real activity and inflation. Risk perception can significantly influence this mechanism. Evidence from the Bank of Italy indicates that the pass-through of policy rate cuts to banks' funding costs has been slightly weaker than during the 2008-09 easing cycle, partly due to limited pass-through to overnight deposits. Conversely, pass-through to lending rates for non-financial firms has been somewhat stronger, supported by a relatively small role of risk perception in easing credit conditions in the recent period. Overall, bank risk perception can either amplify or dampen monetary policy transmission, in both tightening and easing phases.⁶²

Finally, US trade policy remains a relevant factor for the Eurozone outlook. A Bank of Italy study analysing ad hoc scenarios considers two cases. In the first, the United States imposes tariffs for four years on goods from China, the Eurozone and the rest of the world (excluding energy products) destined for domestic use. In the second, retaliatory measures are assumed, with equivalent tariffs imposed on US exports. In the baseline tariff scenario, US tariffs rise by 45 percentage points on Chinese goods, 25 points on Eurozone goods and 9 points on imports from the rest of the world; in the retaliatory scenario, the same increases apply reciprocally. In addition to direct tariff effects, heightened trade policy uncertainty is modelled through an exogenous decline in private investment. The results show a larger GDP contraction in the

⁶² Santi, M., Schiaffi, S. (2025). The bank-based transmission of the 2024-25 monetary policy easing in the euro area. *Questioni di Economia e Finanza* (Occasional Papers), numero 964.

Eurozone under the retaliatory scenario (slightly above 1% at peak impact) than under unilateral US tariffs alone (around 0.5%), reflecting weaker domestic demand offset only in part by higher exports to China.⁶³

From the perspective of external demand, the effects of US trade policy are already visible: towards the end of 2025, Eurozone exports to the United States declined overall, although some months recorded strong growth partly linked to front-loading behaviour by US importers.

Figure 40: Goods exports by destination, Eurozone - % change, YoY and contributions

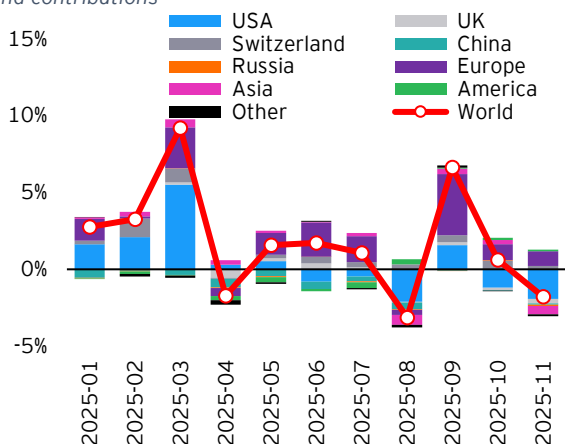
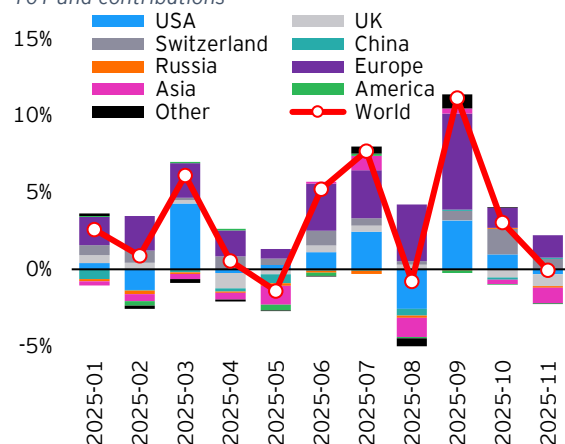


Figure 41: Goods exports by destination, Italy - % change, YoY and contributions



Source: EY-Parthenon calculations based on Eurostat Comext data.

Overall, the Eurozone economic outlook remains highly complex. Economic activity appears broadly subdued, with the industrial sector still facing significant challenges despite tentative signs of improvement. Restrictive monetary policy has been instrumental in curbing inflation, but the disinflation process has slowed in recent months, partly reflecting resilient labour markets and wage growth. At the same time, the geopolitical environment risks adding further layers of uncertainty, through potential increases in energy and other prices and through the broader effects of trade tensions and heightened global uncertainty.

⁶³ Bartocci, A., Cantelmo, C., Cova, P., Notarpietro, A., Pisani, M. (2025). The macroeconomic effects of import tariffs on the euro area: a model-based assessment. *Questioni di Economia e Finanza (Occasional Papers)*, numero 960.

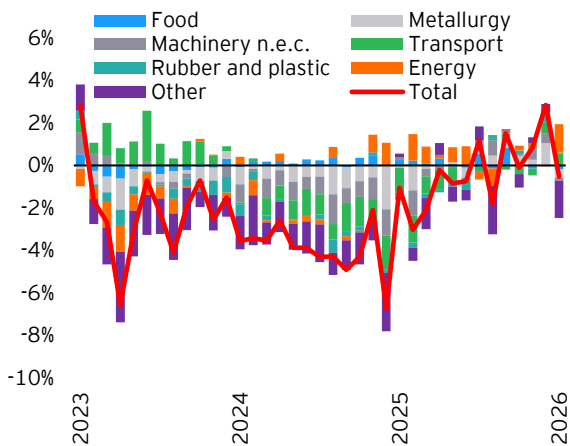
The Italian economy

The real economy

In January 2026, Italy's industrial production index declined by 0.6% month on month, corresponding to a year-on-year contraction of 0.5%. The year-on-year decrease recorded in January marks the first decline in the index after two consecutive months of growth: specifically, increases of 2.8% and 0.9% were recorded in December and November of the previous year, respectively.

Overall, Italy's industrial production index remains 6.5% below its 2021 average level.

Figure 42: Industrial production index and components - % change, YoY, Italy



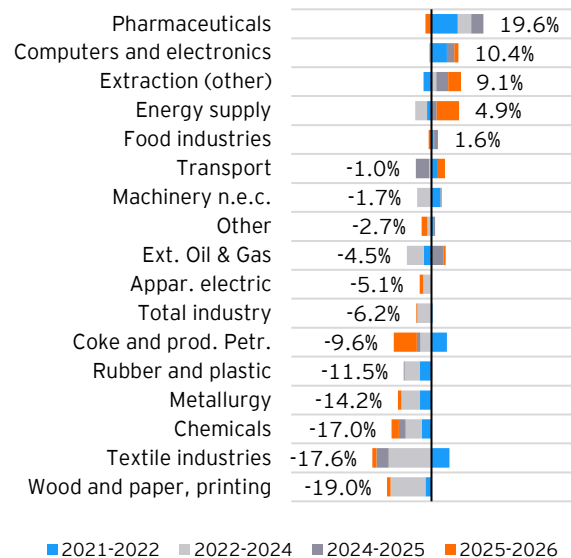
Source: EY-Parthenon calculations based on ISTAT data. Latest available data: January 2026.

The January outturn reflects heterogeneous developments across industrial sectors. In particular, the manufacture of coke and refined petroleum products, chemicals, and wood, paper and printing products recorded year-on-year contractions of -12.8%, -7.1% and -4.6%, respectively.

By contrast, sectors such as electricity, gas, steam and air conditioning supply, the manufacture of transport equipment, and the manufacture of computers and electronic products recorded year-on-year growth of 13.7%, 6.5% and 3.2%, respectively.

Taking a longer-term perspective provides additional insights into the main industrial sectors and the dynamics that have characterised them in recent years.

Figure 43: Industrial production index by industrial sector, Italy - % change vs 2019 and contributions by years analysed



Source: EY-Parthenon calculations based on ISTAT data. Machinery n.e.c.: Manufacture of machinery and equipment not elsewhere classified.

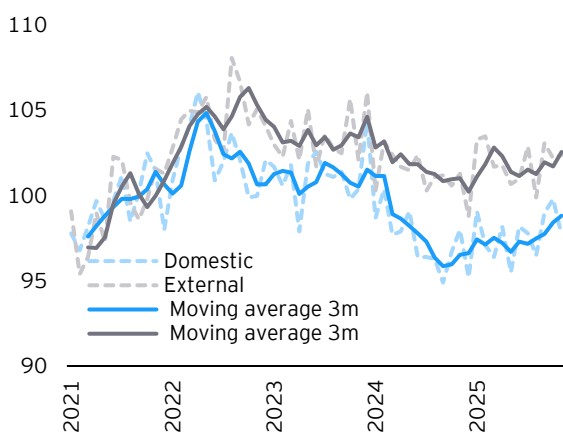
A more detailed sectoral analysis of industrial production indicates that several sectors continue to register levels well below those observed in 2021.

Specifically, the wood, paper and printing industries, textiles, apparel, leather and related products, and the manufacture of chemicals show industrial production index levels lower by 19.0%,

17.6% and 17.0%, respectively. By contrast, the manufacture of basic pharmaceutical products and pharmaceutical preparations, the manufacture of computers and electronic and optical products, and other mining and quarrying activities record industrial production index levels higher by 19.6%, 10.4% and 9.1%, respectively.

Another indicator describing the conditions of Italian industry is industrial turnover volume.

Figure 44: Industrial turnover volume (excl. Construction), Italy - index, 2021=100

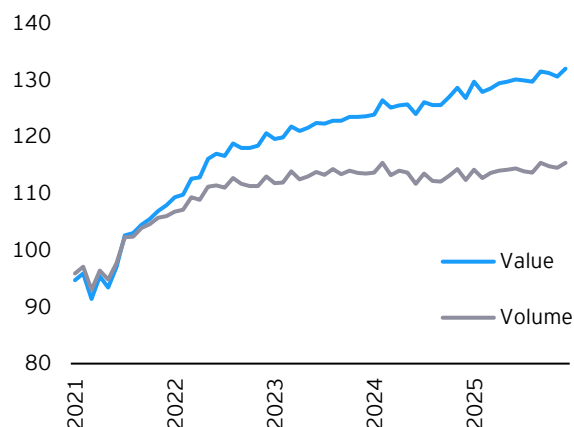


Source: EY-Parthenon calculations based on ISTAT data. Latest available data: December 2025.

In this case, the industrial turnover volume index—generated across both domestic and foreign markets—has shown a positive trend in recent months, although levels remain below those recorded on average in 2022.

Shifting focus to the services sector, which accounts for more than 70% of total Italian value added, developments appear less encouraging, despite dynamics being more favourable than those observed in industry. Sectoral turnover data indicate that, in nominal terms, growth has been substantial (an increase of around 30% since 2021); this expansion, however, largely reflects the increase in price levels observed since 2022. In real terms, growth has been more contained (at around 15%).

Figure 45: Value and volume index of services turnover, Italy - index, 2021=100



Source: EY-Parthenon calculations based on ISTAT data. Latest available data: December 2025.

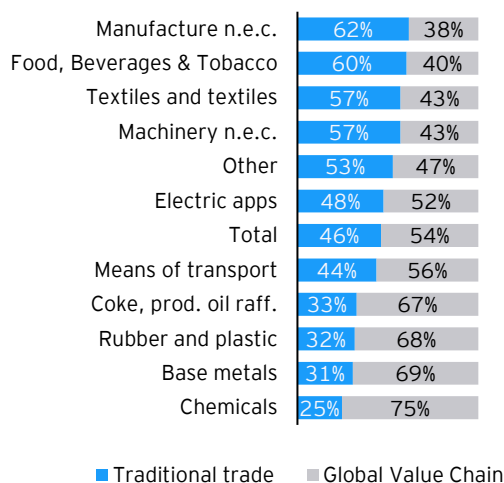
The external environment, characterised by heightened uncertainty and trade-distorting policies, represents a negative factor for firms in both industry and services. The Italian production system is deeply integrated into international trade and global value chains, which in recent years have been repeatedly exposed to severe external shocks. Events such as the COVID-19 pandemic and Russia's invasion of Ukraine have underscored the risks associated with sudden disruptions to international trade.⁶⁴ This degree of integration heightens downside risks for the Italian economy, also in light of recent developments related to the war with Iran (see the in-depth analysis in the final chapter).

In the context of tariffs imposed by the US administration, exposure levels—measured by turnover generated in the United States—vary significantly across firms and regions. A study by the Bank of Italy shows that around 20% of firms reported a decline in sales attributable to tariff-related disruptions in the first three quarters of 2025, although often of limited magnitude, while 25% expected a decline in the fourth quarter. It should also be noted that, although the United States represents Italy's main export market outside the European Union, direct exports to this market account for a relatively small share of firms' total revenues, equal to around 1.4%. This share more than doubles, to 3.2%, once indirect

⁶⁴ Baldwin, R., & Freeman, R. (2022). Risks and global supply chains: What we know and what we need to know. *Annual Review of Economics*, 14(1), 153-180.

linkages transmitted through domestic supply chains are taken into account.⁶⁵

Figure 46: Traditional trade and Global Value Chain (GVC) trade by sector, Italy - % of total exports by sector, 2023



Source: EY-Parthenon calculations based on World Bank (WITS) data. Traditional trade: goods and/or services crossing only one border; Global Value Chains: goods and/or services crossing more than one border.

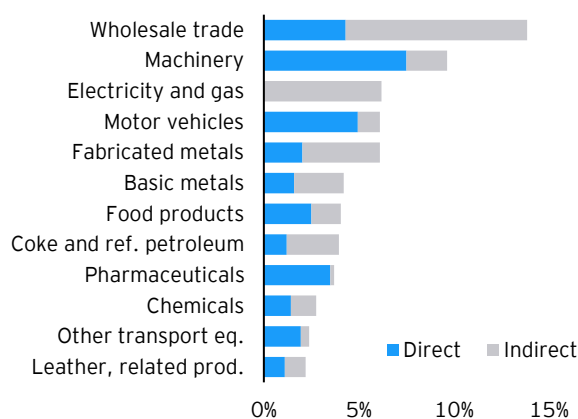
A more granular analysis shows that wholesale trade emerges as the most exposed sector, primarily through the indirect channel but also with non-negligible direct exposure. This reflects its dual role: wholesalers operate both as a key export hub and as a transit sector for intermediate goods. The literature highlights the crucial function played by wholesalers in global value chains, linking domestic producers to foreign markets and redistributing imported goods domestically.⁶⁶ Their capacity to aggregate demand and manage logistics positions them as central nodes in trade networks, such that shocks to US demand can propagate strongly through this sector.

A counterfactual exercise based on the same data indicates that excluding firms in the wholesale sector directly involved in trade with the United States would reduce Italy's exposure to exports to the US by around 10%.⁶⁷

The machinery, automotive and fabricated metal products sectors rank next in terms of exposure, both via the direct channel—confirming the importance of the US market for these industries—and via the indirect channel, reflecting their role as suppliers of intermediate goods to exporting firms in other countries.

By contrast, exposure in the pharmaceutical sector is almost entirely attributable to the direct channel, possibly reflecting the increase in demand linked to the COVID-19 pandemic, which was still partly evident in 2022. Finally, the food industry exhibits a slight predominance of direct exposure.

Figure 47: Sectoral exposure to US tariffs, Italy - exports as a share of total turnover



Source: Bank of Italy.

Overall, firms' turnover exposure to US tariffs is present but remains relatively limited. This assessment is corroborated by other studies which estimate that, in terms of profit margins, tariffs reduce margins by around 0.3 percentage points on average in the short term, implying a broadly contained impact on firms' profitability.

Most domestic suppliers display low exposure to the US market through their clients; however, a subset of small, highly exposed firms could face more pronounced effects, with potential repercussions for local employment. In addition, trade diversion dynamics—primarily linked to Chinese exports redirected away from the US

⁶⁵ Benecchi, A., Borin, A., Conteduca, F. P., Leone, F., Mancini, M., Modugno, L., Mongardini, M., Papini, G., Zoi, P. (2025). US tariffs and Italian firms: mapping network exposure and early impact from survey data. *Questioni di Economia e Finanza (Occasional Papers)*, numero 993.

⁶⁶ Crozet, M., Lalanne, G., & Poncet, S. (2013). Wholesalers in international trade. *European Economic Review*, 58, 1-17; Ganapati,

S. (2025). The modern wholesaler: Global sourcing, domestic distribution, and scale economies. *American Economic Journal: Microeconomics*, 17(1), 1-40.

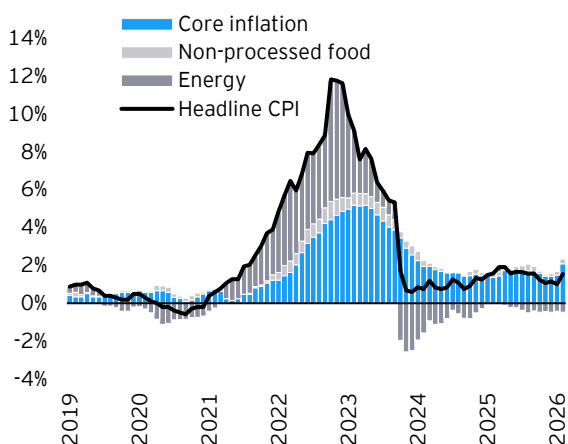
⁶⁷ Conteduca, F. P., Mancini, M., & Borin, A. (2025). Roaring Tariffs: The Global Impact of the 2025 US Trade War. *VoxEU Column*, 6 May 2025.

market—entail moderate but non-negligible risks for Italian exporters.⁶⁸

Price developments and the labour market in Italy

In February, the inflation rate stood at 1.5%, up from levels recorded in previous months (with an average of 1.3% over the period August 2025–January 2026).

Figure 48: Inflation and components, Italy - % change, YoY and percentage points



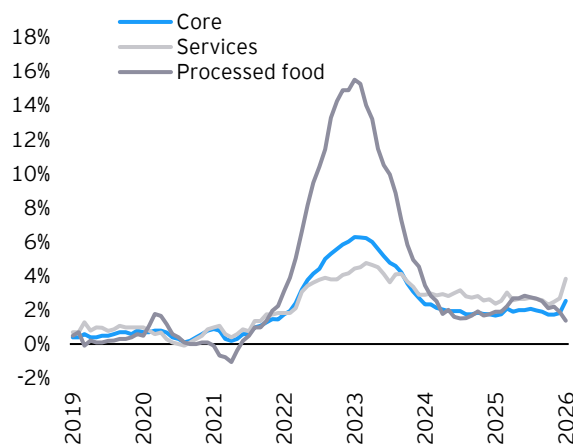
Source: EY-Parthenon calculations based on ISTAT data. Latest available data: February 2026.

The increase observed in the latest month is mainly attributable to a stronger positive contribution from the core component, while energy goods continue to exert downward pressure on inflation. A positive contribution—albeit still limited—also stems from unprocessed food prices, which nevertheless increased by 3.8% in February compared with the same month of the previous year. As noted earlier, it is important to stress that the current geopolitical environment, and in particular the US-Iran war, could exert significant upward pressure on inflation, depending on the duration of the conflict, the magnitude of energy price increases and the degree of pass-through to final consumer prices.

At the same time, the core inflation index recorded growth of 2.5%, driven by rising service prices (3.8%), while the processed food index

declined to 1.4%, after 1.9% and 2.2% in January 2026 and December 2025, respectively.

Figure 49: Core inflation and components, Italy - % change, YoY and percentage points



Source: EY-Parthenon calculations based on ISTAT data. Latest available data: February 2026.

Inflation dynamics are also closely linked to producer price developments. With regard to industrial producer prices, the final two months of 2025 were characterised by declines in the price index (-0.2% and -1.4% in November and December, respectively), following a gradual deceleration in index growth that had been underway since early 2025. This decline reflects both lower prices in the domestic market and a reduction linked to the foreign market.

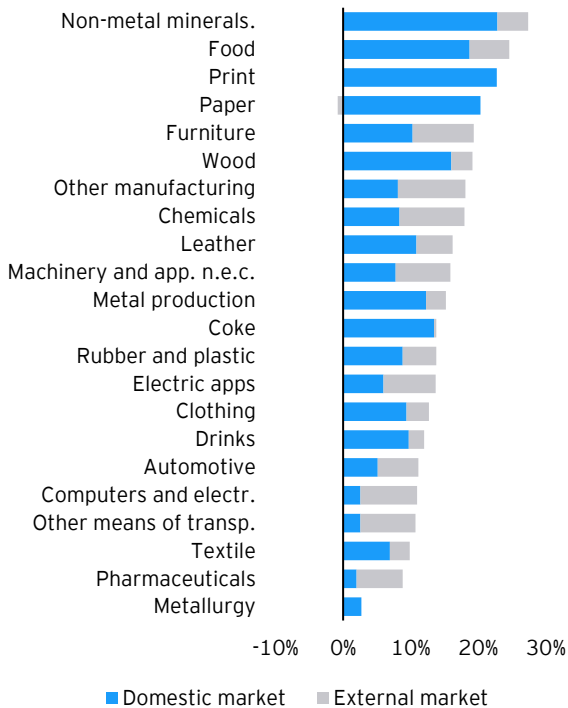
Adopting a longer-term and more granular perspective, the relative contribution of domestic and foreign market components varies markedly across industrial sectors, indicating that some industries are more dependent on imported inputs and therefore more exposed to external shocks.

In particular, producer price developments in sectors such as other non-metallic mineral products, printing and reproduction of recorded media, paper and paper products, and coke and refined petroleum products were driven almost entirely by domestic market dynamics. By contrast, in sectors including chemicals, computers and electronic products, other transport equipment, and pharmaceutical products, increases in producer prices were

⁶⁸ Federico, S., Hassan, F., Romanini, G. (2025). The effects of US tariffs on Italian firms: an ex-ante micro-level perspective. *Questioni di Economia e Finanza (Occasional Papers)*, numero 994.

almost entirely attributable to the foreign market component.

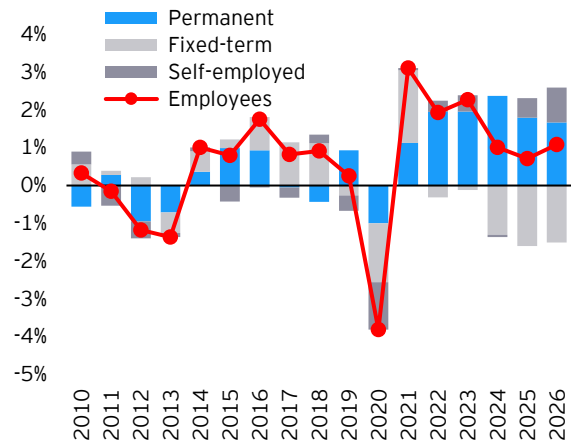
Figure 50: Change in producer prices and contributions by market, Italy - % change 2021-2025



Source: EY-Parthenon calculations based on ISTAT data.

Inflation trends are also connected to labour market developments. In this regard, total employment remains at historical highs (around 24.2 million), while the unemployment rate stands at approximately 5%.

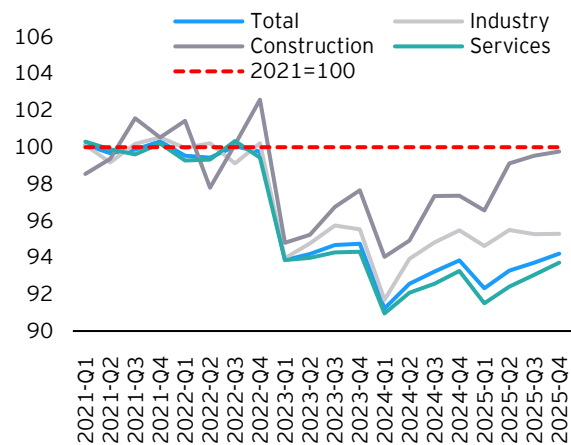
Figure 51: Employment by age group, Italy - % change, YoY and percentage points



Source: EY-Parthenon calculations based on ISTAT data. Growth to 2026 is calculated taking into account the latest available data for the year.

The overall positive performance of employment is mirrored in growth in the wage bill (up by 1.7% in the fourth quarter compared with the same quarter of the previous year). Nevertheless, it is important to highlight that real wages per hour worked remain below 2021 levels, despite some positive developments in recent quarters.

Figure 52: Real wages per hour worked in macro-sectors of the economy, Italy - index, 2021=100



Source: EY-Parthenon calculations based on ISTAT data.

From a longer-term perspective, employment growth between 2019 and 2024 was driven by both structural factors—such as increased participation of older workers—and cyclical elements, including declining real wages,

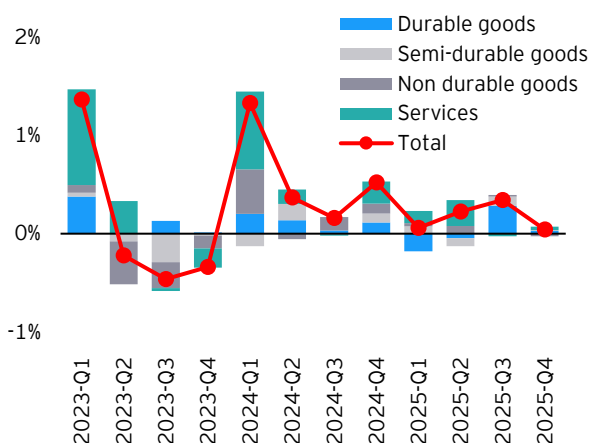
expansionary fiscal policy and the resumption of hiring in the public sector.

Since 2021, the decline in the cost of intermediate inputs and capital has favoured a substitution of production inputs towards labour, further supporting employment and reducing capital intensity, which had already been on a downward trend since the post-2011 crisis period. This has contributed to a decline in hourly productivity.

At the microeconomic level, evidence suggests that firms offering higher wages—even after controlling for workforce quality—did not experience stronger employment growth, but instead increased capital intensity. This dynamic has contributed to a widening of wage differentials: while real wages declined for the majority of firms over the past decade, those at the top of the wage distribution continued to improve their remuneration policies.

Despite the overall resilience of labour market indicators, private consumption growth in the fourth quarter relative to the previous quarter was broadly flat, following increases of 0.3% and 0.2% in the third and second quarters of 2025, respectively.

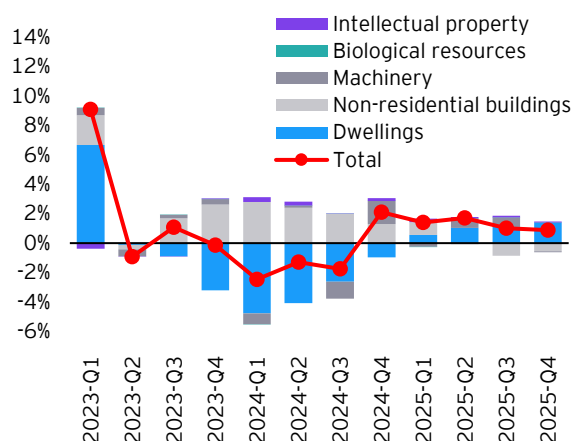
Figure 53: Household final consumption expenditure by spending category, Italy - % QoQ change and contributions to growth



Source: EY-Parthenon calculations based on ISTAT data.

As regards other GDP components, investment continues to display a positive trajectory, with quarter-on-quarter growth of 0.9%, following more robust increases in the third and second quarters (1.0% and 1.7%, respectively).

Figure 54: Investment, Italy - QoQ change and contributions to growth

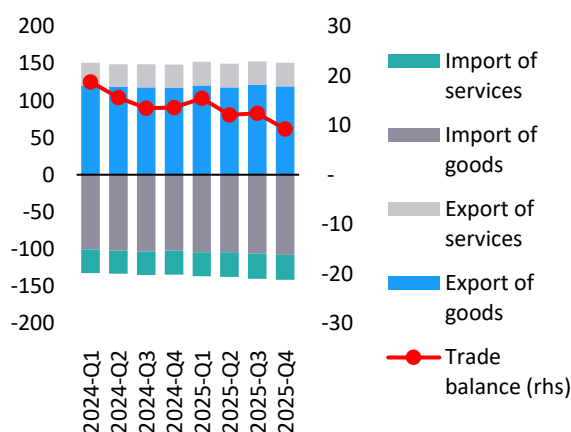


Source: EY-Parthenon calculations based on ISTAT data.

This expansion was driven mainly by a rise in residential investment (positive contribution of 1.4 percentage points), partially offset by a contraction in non-residential construction investment (negative contribution of 0.5 percentage points).

Finally, with respect to the external sector, Italy continued to record a trade surplus in the fourth quarter of 2025 (€9 billion), despite a slight deterioration observed in recent quarters.

Figure 55: Exports and imports, Italy - € billion



Source: EY-Parthenon calculations based on ISTAT data.

The narrowing of the trade balance primarily reflects an increase in the value of goods imports, which have risen gradually but steadily since the first quarter of 2024. Goods exports, by contrast, have remained broadly stable, notwithstanding the geopolitical turbulence of recent quarters.

Overall, the Italian economy therefore remains characterised by underlying weaknesses, related to a highly uncertain environment and a struggling industrial sector, while services exhibit comparatively greater dynamism. At the same time, labour market signals remain supportive, with employment at historical highs and a declining unemployment rate, although the acceleration of inflation in February and prevailing geopolitical risks heighten uncertainty surrounding price developments in the months ahead.

The Italian economy: GDP and EY forecasts

The fourth quarter of 2025 recorded quarter-on-quarter GDP growth of 0.3%, following an increase of 0.2% in the third quarter. This performance was mainly supported by robust investment growth (0.9%) and more moderate expansion in household consumption (0.1%). By contrast, exports declined by 1.2% in the final quarter of 2025, while imports increased by 1.0%, resulting in a negative contribution of net external demand to growth amounting to -0.7 percentage points.

From a year-on-year perspective, comparing outcomes with the same quarter of the previous year, investment again represented the most dynamic GDP component, expanding by 5.1% relative to the fourth quarter of 2024, while private consumption grew by 0.8%. As regards external trade, exports recorded positive growth (1.9%), albeit at a slower pace than imports (5.3%).

Figure 56: GDP components, Italy - contributions to growth, percentage points

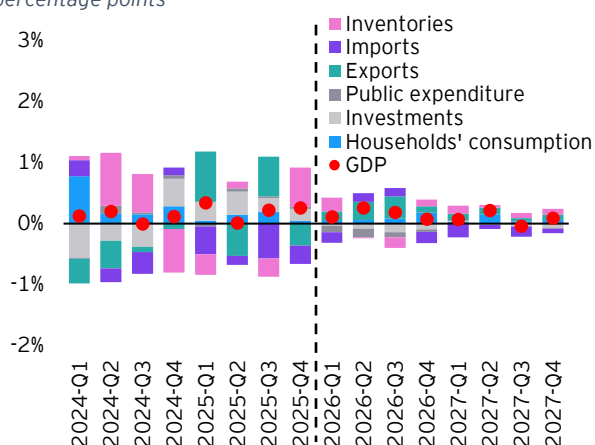
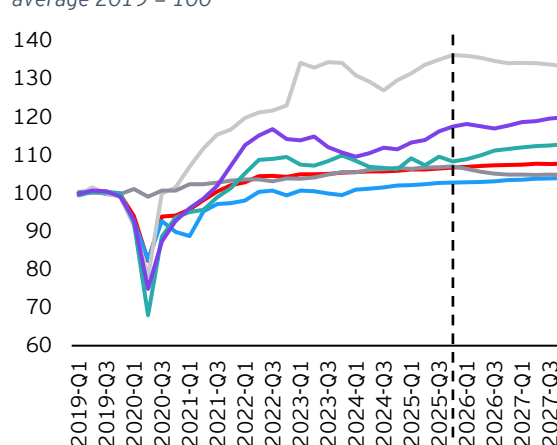


Figure 57: GDP components, Italy - index, quarterly average 2019 = 100



Source: EY-Parthenon calculations based on Eurostat data and EY forecasts. The dashed line represents the forecast horizon. EY forecasts start from the first quarter of 2026. The "Investment" item refers to public and private investment and includes gross fixed capital formation, acquisitions less disposals of valuables, and depreciation.

Overall, 2025 closed with GDP growth of 0.5%, primarily supported by household consumption, which grew by 1.1%, contributing 0.6 percentage points to growth, and by investment growth of 3.5%, corresponding to a contribution of 0.8 percentage points. Conversely, net external demand exerted a negative contribution to GDP growth in 2025 (-0.6 percentage points), as import growth (3.6%) outpaced export growth (1.2%).

Based on the information presented in the previous sections and the latest available data, EY's outlook for the Italian economy can be outlined. In the first quarter of 2026, GDP growth is expected to be weak (0.1%) on a quarter-on-quarter basis, reflecting subdued consumption dynamics (0.1%), a slight contraction in investment (-0.2%) and a broadly neutral contribution from external demand. Subsequent quarters are expected to see a modest recovery in private consumption relative to previous quarters, a positive contribution from external demand, and continued negative quarter-on-quarter investment dynamics.

For the full year, 2026 is expected to close with GDP growth of 0.7%, mainly supported by consumption and investment growth (0.6% and 0.7%, respectively), alongside a negative – but less pronounced than in the previous year – contribution from net external demand (-0.1 percentage points). Investment dynamics

remain influenced, among other factors, by heightened uncertainty stemming from the complex geopolitical environment, which weighs on confidence among key economic agents.

In 2027, overall GDP growth is expected to moderate further to 0.4%, largely reflecting a contraction in investment (-0.9%) due to elevated global uncertainty and a realignment of investment levels towards values more consistent with historical norms, as the boost from strong public support observed in recent years (the “superbonus” and the PNRR) fades. The negative impact of these factors is partially offset by a decline in real financing costs, i.e. net of inflation, which provides a degree of stimulus.

Net external demand is expected to return to a positive contribution to GDP growth (0.2 percentage points), supported by stronger export growth (1.8%, compared with 1.6% in 2026) and a slowdown in imports (1.4%, down from 2.1% in 2026).

Table 1: Forecasts for the Italian economy

	2022	2023	2024	2025	2026	2027
GDP, % change	4.8%	0.9%	0.8%	0.5%	0.7%	0.4%
Private consumption, % change	5.3%	0.5%	1.2%	1.1%	0.6%	0.7%
Investments, % change	7.4%	10.1%	-3.1%	3.5%	0.7%	-0.9%
Exports, % change	9.9%	-0.2%	-0.4%	1.2%	1.6%	1.8%
Imports, % change	12.9%	-1.9%	-1.0%	3.6%	2.1%	1.4%
Unemployment rate	8.1%	7.7%	6.6%	6.1%	6.1%	6.5%
Consumer Price Index, % change	8.2%	5.6%	1.0%	1.5%	2.6%	1.9%
Deficit, % of GDP	-8.1%	-7.2%	-3.4%	-3.1%	-3.5%	-3.6%
Public debt, % of GDP	138.4%	133.9%	134.9%	137.0%	137.3%	136.7%

Source: forecasts from the EY Italy Macroeconometric Model, “HEY-MoM”. The grey area represents the forecast horizon. GDP and its components are calculated in real terms. The “Investment” item refers to public and private investment and includes gross fixed capital formation, acquisitions less disposals of valuables, and depreciation.

Looking more closely at investment dynamics, growth in 2026 is expected to be supported by residential investment (6.9%), intangibles (1.0%) and machinery (0.9%). By contrast, investment in non-residential buildings is projected to contract (-3.6%), mainly due to a decline in private investment (-4.6%). A further contraction in non-residential building investment is anticipated in 2027, albeit of smaller magnitude (-1.2%), alongside declines in residential investment (-2.2%) and machinery investment (-0.8%). Investment in intangibles, however, is expected to continue expanding (1.3%), underscoring the growing role of this component in supporting growth and sustaining firms’ competitiveness at both national and international levels.

With regard to the labour market, the unemployment rate is projected to stand at 6.1% in 2026, followed by a slight increase to 6.5% in 2027. This trajectory is consistent with a broadly resilient labour market, which supports consumption, as noted above, allowing it to continue growing – albeit modestly – despite an unfavourable external environment.

Inflation is expected to reach 2.6% in 2026, reflecting higher energy prices, before declining to 1.9% in 2027. The public deficit is projected at 3.5% of GDP in 2026 and 3.6% in 2027, while the public debt-to-GDP ratio is expected to edge down slightly, from 137.3% in 2026 to 136.7% in 2027, also supported by higher inflation. Forecasts are subject to a high degree of uncertainty and therefore entail significant downside and upside risks, primarily linked to the global macroeconomic environment.

Focus: The War in the Middle East and Implications for the Italian Economy

Key takeaways:

1. The war in the Middle East represents a new source of geopolitical uncertainty, with implications for the global and Italian economy that remain highly uncertain. At present, the Strait of Hormuz – a critical chokepoint for the transit of goods and energy commodities – is effectively closed, with an almost complete halt in the volume of goods passing through it.
2. The Middle East conflict may affect the global economy through multiple transmission channels, ranging from higher energy prices (and prices of other goods) to a slowdown in international trade driven by weaker economic activity, to a contraction in trade with Gulf countries and Iran. In this context, Italy exports around €21 billion of goods to these markets, out of total Italian exports of approximately €640 billion in 2025. This direct exposure is complemented by indirect exposure – exports of semi-finished goods to third countries that subsequently reach Gulf countries and Iran – estimated at around €5 billion.
3. Under a potential adverse scenario – characterised by stronger and more persistent increases in energy prices, a reduction in international trade, and tighter monetary policy by the ECB to contain inflationary pressures – a cumulative impact on the level of GDP by 2027 of around -0.6% is estimated, with a reduction in GDP growth in both 2026 and 2027 of around 0.3 percentage points per year.
4. Some sectors of the Italian economy are more exposed than others; overall, the expected negative impact on production levels by 2027 ranges between 0% and 1%.

The forecasts presented in the previous section incorporate the most recent developments in the Middle East. The implications of the war between the United States and Iran generate effects on global economies that vary depending on their degree of exposure to several factors, including differences in dependence on oil and gas and the relevance of the Strait of Hormuz for each country's trade.

It is important to recall that following the outbreak of the conflict at the end of February 2026, the volume of goods transiting through the Strait of Hormuz declined sharply within a few days, reaching levels close to a complete standstill. The Strait of Hormuz ranks sixth globally in terms of volumes of goods in transit among major maritime straits, with total flows of around 1.4 billion metric tonnes.

Figure 58: Volumes of goods in transit through the Strait of Hormuz, million metric tonnes

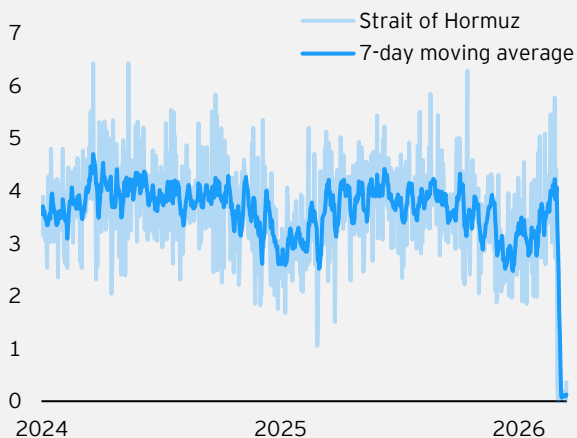
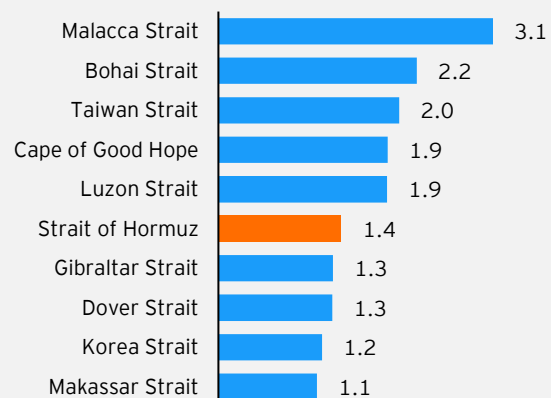


Figure 59: Volumes of goods in transit through the main global straits, billion metric tonnes - 2024



The role of the Strait of Hormuz in energy trade

The Strait of Hormuz represents one of the most critical energy chokepoints worldwide: around 26% of global seaborne oil transport transits through this passage (approximately 20% of global oil supply, or about 20 million barrels per day), a share second only to that of the Strait of Malacca. A prolonged blockade or sustained slowdown in flows would therefore have pronounced effects on oil prices at the global level. Oil transiting through the Strait of Hormuz originates primarily in Middle Eastern countries, notably Saudi Arabia, the United Arab Emirates and Iraq. The set of destination countries is broad. In particular, China, India and South Korea are the three largest importers of crude oil passing through the strait, with volumes of 5.4, 2.1 and 1.7 million barrels per day, respectively, while European countries import around 0.6 million barrels per day.

Figure 60: Volume of oil transiting through the Strait of Hormuz by country of origin - million barrels per day

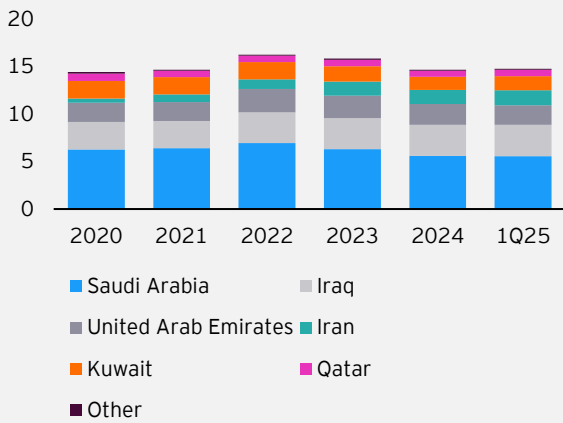
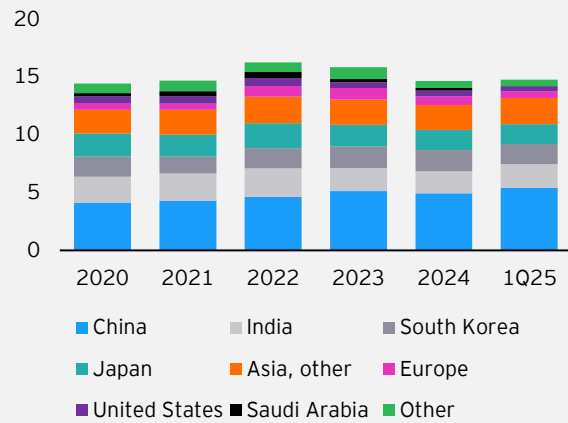


Figure 61: Volume of oil transiting through the Strait of Hormuz by destination country - million barrels per day



Source: EY-Parthenon calculations based on International Energy Agency data.

Beyond oil, the Strait of Hormuz also plays a pivotal role in natural gas trade. In this case, the vast majority of gas transiting through the strait originates in Qatar (around 93%), with the remainder coming from countries such as the United Arab Emirates and the United States.

As with oil, gas passing through the strait is delivered to a wide range of destinations, including Italy, which imported around 0.73 bcf per day of natural gas via the Strait of Hormuz in the first quarter of 2025 (around 13% of total natural gas imports). The main destination countries are China (2.7 bcf per day), India (2.2), Taiwan (1.1) and South Korea (1.0).

Figure 62: LNG volume transiting through the Strait of Hormuz by country of origin - bcf/day

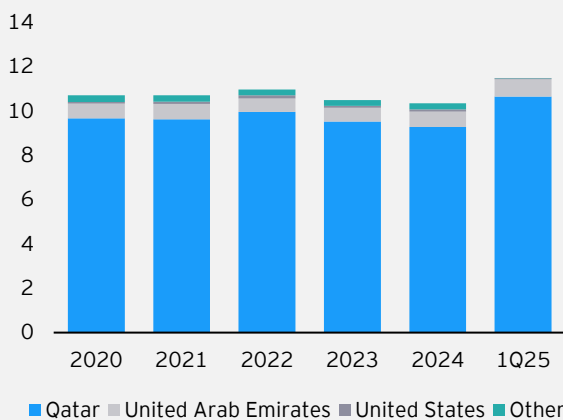
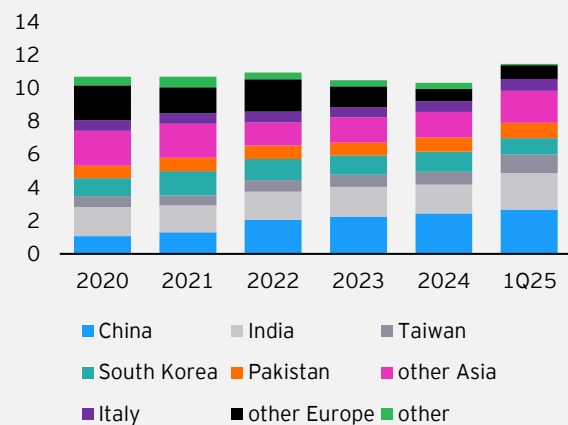


Figure 63: LNG volume transiting through the Strait of Hormuz by destination country - bcf/day



Source: EY-Parthenon calculations based on International Energy Agency data.

From an energy supply perspective, around 13% of oil imported by the European Union transits through the Strait of Hormuz, while the share declines to around 6% for natural gas. With respect to the remaining crude oil imports, around 40% originate from the United States (around 15%), Kazakhstan (around 13%) and Norway (around 13%). The picture differs for natural gas, for which the United States remains the EU's main supplier (around 26%), followed by Algeria (around 18%) and Russia (around 14%).

Figure 64: Oil imports by country of origin, European Union - % of total, 2025

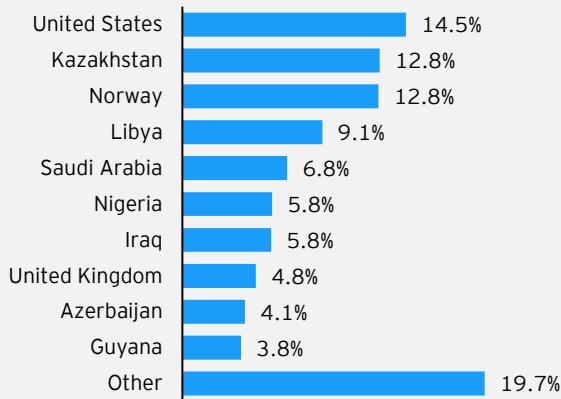
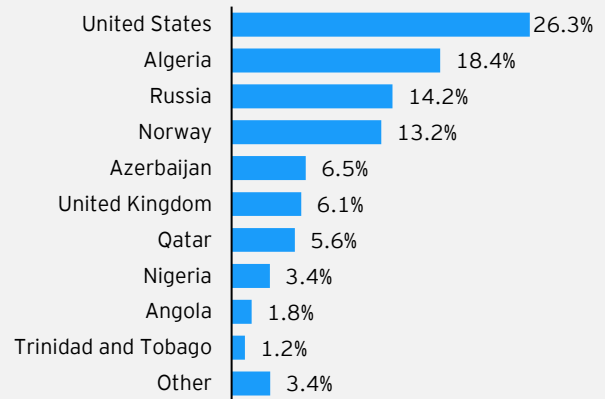


Figure 65: Natural gas imports by country of origin, European Union - % of total, 2025



Source: EY-Parthenon calculations based on Eurostat data. For oil imports, the following product categories were considered: 27090010 - Petroleum oils from natural gas condensates; 27090090 - Petroleum oils and oils obtained from bituminous minerals, crude; for natural gas, the following product categories were considered: 27111100 - Natural gas, liquefied; 27112100 - Natural gas in gaseous state. Codes refer to the 8-digit Combined Nomenclature (CN). For further information, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=EU_imports_of_energy_products_-_latest_developments#Main_suppliers_of_petroleum_oils,2C_natural_gas_and_coal_to_the_EU.

Gulf countries and Iran in Italian goods exports

Another key aspect in assessing the impact of the recent conflict on Italy concerns the potential effects of a slowdown in global economic activity and international trade arising from heightened geopolitical uncertainty, compounded by a forced reduction in exports to Gulf countries and Iran – both due to the effective closure of the Strait of Hormuz and to risk- and demand-related factors. In this regard, in 2025 the Eurozone exported goods to Gulf countries worth around €100 billion, a value that has increased relative to recent years. Germany and Italy are the two largest exporters, with export values of around €26 billion and €21 billion, respectively.

Figure 66: Value of exports to Gulf countries and Iran, Eurozone - € billion

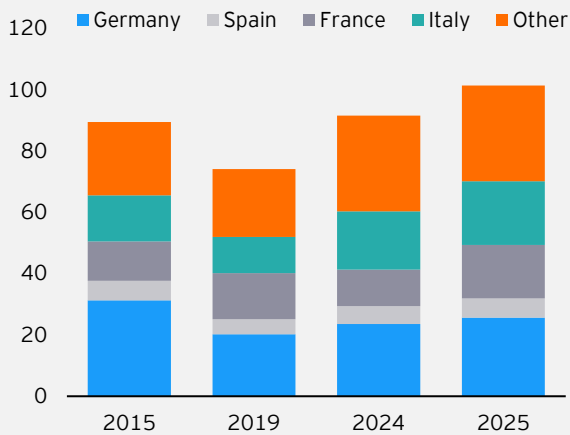
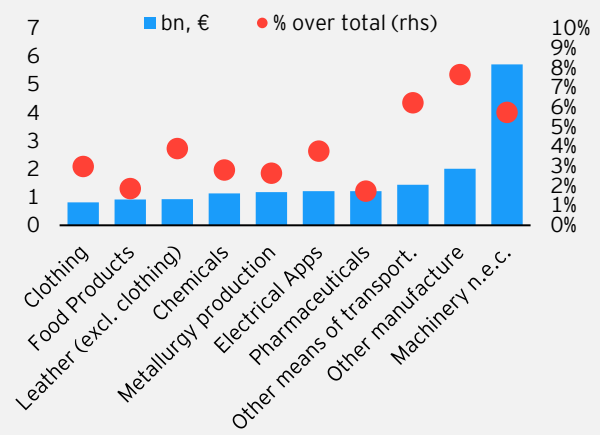


Figure 67: Value of exports to Gulf countries and Iran by product type, Italy - € billion and % of total exports



Source: EY-Parthenon calculations based on Eurostat and ISTAT data.

Focusing on Italy, sectoral exposure is heterogeneous. In particular, the most exposed product categories are machinery and equipment n.e.c. (e.g. general-purpose machinery such as engines, turbines, pumps and compressors), other manufactured products (e.g. furniture and jewellery), and other transport equipment (e.g. ships, boats and aircraft). For these sectors, Gulf countries and Iran represent a non-negligible export market: exports of machinery and equipment n.e.c. to these destinations account for around 5-6% of Italy's total exports in the category, with higher shares observed for other manufacturing and other transport equipment (7.5% and 6.6%, respectively).

This direct exposure is complemented by indirect exposure, arising from exports of intermediate goods to third countries that subsequently export final goods to Gulf economies.

Figure 68: Value of exports to Gulf countries and Iran, Italy - € billion, 2024

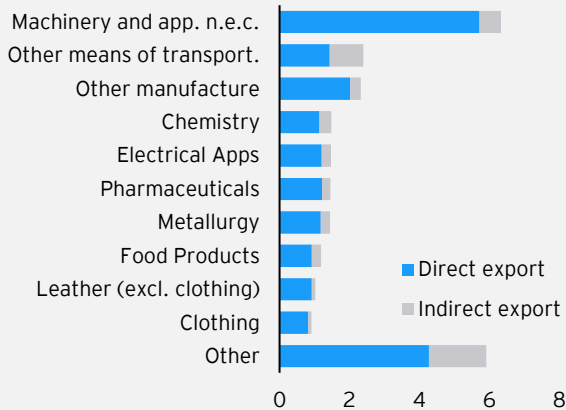
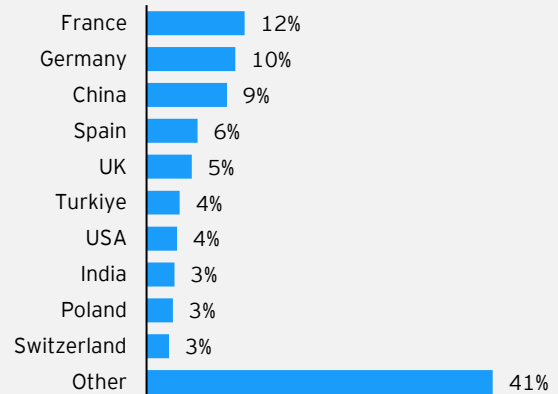


Figure 69: Main countries for indirect exports to Gulf countries and Iran, Italy - % of total indirect exports, 2022



Source: EY-Parthenon calculations based on ISTAT and OECD data. The value of indirect exports was estimated using the OECD TiVA (Trade in Value Added) database based on the latest available data.

In addition to around €21 billion in direct exports, there are therefore approximately €5 billion in indirect exports, with heterogeneous sectoral exposure. France, Germany and China are the main countries through which Italy is indirectly exposed to Gulf countries and Iran, together accounting for around 30% of total indirect exports.

Definition of the adverse scenario and impact estimates

Taking into account the above-mentioned transmission channels – higher energy prices, weaker global economic activity and a forced reduction in direct and indirect exports to the Gulf – an alternative scenario to the baseline forecast was developed, representing a potential worsening of the conflict, in order to derive a reasonably robust estimate of the negative impact.

The “adverse scenario” is defined as follows:

1. Oil price: \$96/bbl in 2026 and \$84/bbl in 2027. Prices are expected to peak in the second quarter of 2026 (\$107/bbl), followed by a gradual normalisation through the end of 2027. Prices remain above pre-conflict levels due to physical destruction of oil supply (attacks on oil facilities). These assumptions imply an average increase of around \$12/bbl in 2026 and \$11/bbl in 2027 relative to the baseline.
2. Gas price: \$19.4/mmbtu in 2026 and \$14.8/mmbtu in 2027, with a peak in the second quarter of 2026 (\$20.8/mmbtu) and subsequent normalisation. Prices remain above pre-war levels due to supply destruction, corresponding to an average increase of around \$3/mmbtu in 2026 and \$2.5/mmbtu in 2027 compared to the baseline.
3. Global trade: global trade growth slows to 2.2% in 2026 and 2.4% in 2027, compared to 2.9% in both years under the baseline.
4. External demand for Italian goods: a reduction of around 0.4 and 0.3 percentage points in 2026 and 2027, respectively, bringing growth to 1.5% and 2.4% instead of 1.9% and 2.7%.
5. Exports to Gulf countries and Iran: a forced reduction of 40% in 2026 and 20% in 2027 relative to 2025 levels, including both direct and indirect exports.
6. Monetary policy: in response to stronger inflationary pressures, the ECB is assumed to raise policy rates by two increments of 0.25 percentage points in 2026, followed by gradual easing in 2027.

Based on these assumptions, the impact on GDP growth and inflation can be estimated.

Figure 70: GDP in the baseline and adverse scenarios, % change, YoY, Italy

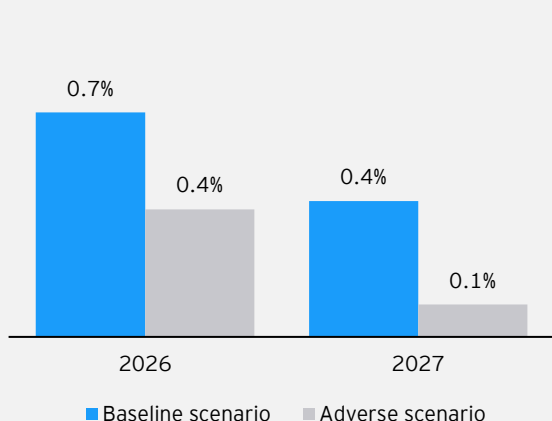
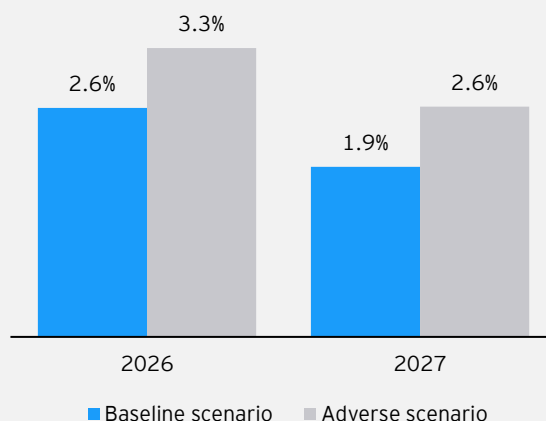


Figure 71: Inflation in the baseline and adverse scenarios, Italy



Source: EY-Parthenon calculations using the EY Italy Macroeconometric Model, “HEY-MoM”.

Under a deterioration in the external environment, Italy's GDP growth would therefore be almost halved in 2026 (0.4% versus 0.7% in the baseline) and fall close to zero in 2027 (0.1% versus 0.4%). By 2027, this would imply a cumulative loss in GDP levels of around 0.6% relative to the baseline scenario. Higher energy prices would also translate into stronger inflationary pressures, with inflation rising from 2.6% in the baseline to 3.3% in 2026, before easing to 2.6% in 2027 (compared to 1.9% under the baseline).

A more granular analysis highlights heterogeneous sectoral effects across the Italian economy.

Figure 72: Change in production value and intermediate demand by sector in the adverse scenario relative to the baseline scenario, Italy

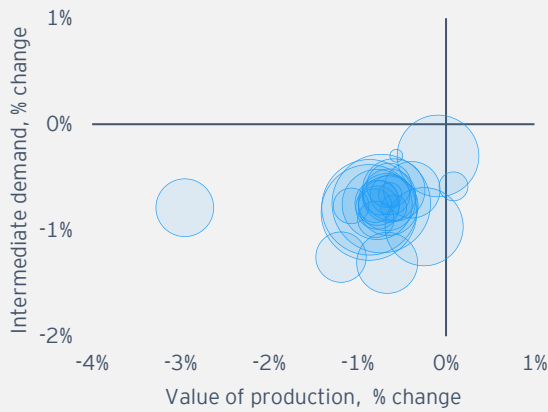
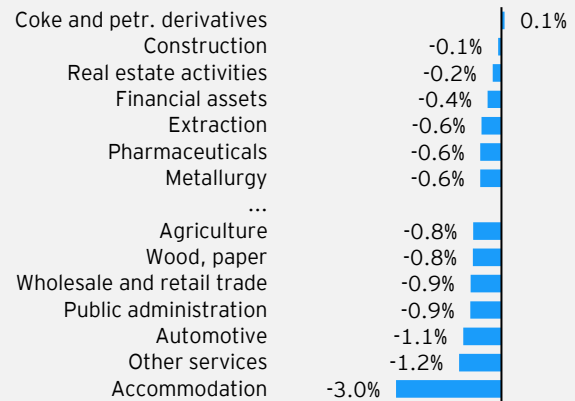


Figure 73: Change in production value by sector in the adverse scenario relative to the baseline scenario, Italy



Source: EY-Parthenon calculations using an extension of the EY Italy Macroeconometric Model (Input-Output Relations Analysis Model).

For most sectors, the overall impact by 2027 lies within a contraction range of between 0% and 1% relative to baseline production levels, indicating effects that are limited but non-negligible.

A notable exception is the accommodation and food services sector, which is expected to experience a cumulative contraction in production value of around 3.0% by 2026 relative to the baseline. The automotive sector is also projected to record a contraction exceeding 1%, while impacts on other sectors are estimated at or below 1%. The least affected sectors include construction, real estate and financial activities, while the manufacture of coke and refined petroleum products is expected to benefit from a slight expansion.

Finally, it should be emphasised that a further escalation of uncertainty would entail even more negative consequences for both the global and Italian economy, notably through a deterioration in confidence among economic agents, resulting in lower consumption and investment.



Assumptions underpinning the forecasts

The forecasts and analyses are formulated based on data available as of 19 March 2026.

The forecasts described above are based on a set of assumptions outlining the baseline scenario. Specifically, the following assumptions were considered:

- **External demand for Italian goods:** overall growth of around 1.9% is assumed for 2026, followed by more dynamic growth in 2027 (2.7%);
- **Natural gas:** it is assumed that the natural gas price (referenced to the Dutch Title Transfer Facility) stands at around \$16.1/mmbtu in 2026; for 2027, an average quotation of \$12.4/mmbtu is assumed;
- **Oil:** an average oil price of around \$83.2/bbl is assumed for 2026, reaching an average quotation of around \$78.6/bbl in the fourth quarter of 2026,⁶⁹ and declining further in 2027 (average quotation of \$73.0 per barrel);
- **Exchange rate:** the euro/dollar exchange rate is assumed to stand at 1.17;
- **Public expenditure:** information contained in the Documento Programmatico di Finanza Pubblica on fiscal policy as of October 2025⁷⁰ has been considered, together with the latest national accounts data on the public sector from ISTAT. In addition, the latest considerations regarding PNRR expenditure have been taken into account;⁷¹
- **Monetary policy and interest rates:** a constant level of monetary policy interest rates is assumed throughout the entire analysis period.

Finally, given the current scenario characterised by high uncertainty, some downside and upside risks are listed below to support a more comprehensive view of what could occur over the forecast horizon.

Upside risks

- **Resolution of the war in the Middle East:** the conflict in the Middle East could be resolved rapidly, leading to a normalisation of oil and gas prices, reducing inflationary risks and not undermining global economic activity;
- **Reduction in trade tensions:** trade tensions could ease, leading to a recovery in trade and supporting the Italian economy and its main trading partners;
- **Decline in commodity prices:** a reduction in commodity prices could result in easier inflation management and a more expansionary monetary policy, with positive effects on growth;
- **Labour market:** lower pressure from the wage component on price levels could reduce the risk of inflation persistence;
- **Monetary policy:** the resolution of conflicts and a reduction in geopolitical tensions could lead to possible rate cuts supporting weak growth in Eurozone economies;

⁶⁹ Si fa riferimento al prezzo del Brent.

⁷⁰ Documento Programmatico di Finanza Pubblica, ottobre 2025. For further details, https://www.dt.mef.gov.it/export/sites/sitodt/modules/documenti_it/analisi_progammazione/documenti_programmatici/doc_prog_fp_2025/DPFP_2025.pdf.

⁷¹ Nello specifico, sono state considerate le rimodulazioni di spesa come descritte dall'Ufficio Parlamentare di Bilancio, <https://www.upbilancio.it/flash-n-1-2026-la-sesta-revisione-del-pnrr-e-gli-effetti-sullindebitamento-netto/>.

- Acceleration of external demand: stronger economic growth among key trading partners such as China, Germany and the United States, also supported by the resolution of uncertainty surrounding trade policies, would translate into a greater contribution of external trade to Italian growth;
- Technology: the adoption of new technological solutions could support growth more than expected through various channels, for example via higher productivity growth.

Downside risks

- Increase in geopolitical tensions: ongoing conflicts may not find a resolution in the short to medium term, adding uncertainty to an already fragile global environment. This could be compounded by an escalation of the conflict in the Middle East. In the event of the involvement of additional countries, humanitarian and economic repercussions would be even more significant, with potentially negative consequences for energy and other commodity prices;
- Higher trade tensions: trade tensions could intensify, with negative consequences for global trade;
- More restrictive monetary policy: the ECB and other major global central banks could move again towards a more restrictive monetary policy stance in the event of significant inflationary pressures. This could translate into a risk of prolonged low growth, driven by lower consumption and investment discouraged by high interest rates;
- Stress in the financial system: potential increases in interest rates could translate into greater stress for financial institutions, with consequences for savers and a tightening of credit conditions, both in the United States and in the Eurozone;
- High public debt: the increase in public debt following the pandemic, together with interest rates higher than in the pre-pandemic period and multiple challenges of different nature (such as the energy transition and higher military expenditure), represent critical issues for fiscal sustainability in Eurozone economies, especially in more indebted countries such as Italy. This could ultimately translate into higher risks of stress in financial markets;
- Weaker growth in China, Germany and the United States: weaker future growth in China, Germany and the United States could result in lower growth of external demand for Italian goods;
- Technology: the adoption of new technological solutions may fail to support growth as expected, for example by delivering benefits that are less significant than anticipated.

Technical Appendix

HEY-MOM: Hybrid EY MOdel for the Macroeconomy⁷²

The development of a new macro-econometric model required addressing an inevitable trade-off between constructing a framework that places primary emphasis on extracting information from the data (as in ARIMA and VAR models, which make no explicit use of economic theory) and building a model focused solely on theoretical economic foundations (as in the extreme case of calibrated RBC-DSGE models, which pay limited attention to the empirical properties of the data).⁷³ This trade-off has been extensively discussed in the literature; see, for instance, Granger (1999) and Pagan (2003).

In designing HEY-MoM, the objective was to avoid neglecting either of these two components – economic theory and data – with the aim of developing a hybrid model that ensures a careful balance between (a) relationships grounded in micro-founded economic behaviour and (b) a rigorous application of statistical information and evaluation techniques. An example of this hybrid class of models is MARTIN, currently used by the Reserve Bank of Australia (see Cusbert and Kendall, 2018).

In essence, HEY-MoM aims to provide a unified analytical macroeconomic framework within EY. To this end, the model focuses on the main aggregates of the Italian economy, is empirically grounded, non-monetary in nature, incorporates explicit long-run relationships among the variables under analysis, and is primarily geared towards short-term forecasting over a two-year horizon.

The economic foundations

Nominal rigidities in prices and wages imply frictions in the speed at which macroeconomic systems adjust to unexpected shocks. Accordingly, in the model, market demand drives short-term fluctuations, in line with Keynesian theory, while supply-side determinants shape the long-run state of the economy.

Long-run output (economic potential) depends on the joint evolution of trends in total factor productivity, labour supply and hours worked, and the capital stock. These factors are combined through a constant-returns-to-scale Cobb-Douglas production technology. Firms' demand for production factors minimises costs for a given level of planned output in an economy characterised by forms of oligopolistic competition, where firms are free to set prices as a mark-up over labour costs and are collectively willing to meet any level of market demand at those prices. Wages are determined by a Phillips-curve-type relationship driven by inflation inertia, labour productivity and the gap between the actual and the natural rate of unemployment (defined by the long-run equilibrium of the labour market).

Actual output is composed of the following domestic and external demand components: private and public consumption; private and public investment by asset type (residential and non-residential buildings, machinery and equipment, and research and development expenditure); imports and exports.

In each period, the gap between actual and potential output feeds back into prices through changes in mark-ups, which in turn interact with the demand components. Through this mechanism, equilibrium between aggregate demand and supply is achieved.

⁷² The model was created in collaboration with the Department of Economics of the University of Bologna.

⁷³ "ARIMA" stands for "Autoregressive integrated moving average", "VAR" for "Vector autoregression", "RBC-DSGE" for "Real Business Cycle - Dynamic. Stochastic General Equilibrium".

Data evaluation techniques

The speed at which the above economic dynamics evolve over time is estimated using econometric methods applied to the historical time series of the variables included in the model.

To this end, HEY-MoM combines the London School of Economics approach with the revision of the Cowles Commission methodology proposed by Fair (2004). The adopted framework relies on cointegration techniques (Engle and Granger, 1987; Johansen, 1995) to estimate long-run relationships among non-stationary variables (Dickey and Fuller, 1979), which are interpretable in light of economic theory and identified through state-space relationships whose parameters are estimated using error-correction models (Hendry et al., 1984; Pesaran et al., 2001). When some explanatory variables cannot be treated as exogenous, relationships are first examined using instrumental-variables estimation and subsequently estimated using a three-stage procedure (Hsiao, 1997).

Overall, the model consists of 74 equations, of which 29 are stochastic and 45 are accounting identities. Forecasts and analyses are conditional on the definition of scenarios for 65 exogenous variables, grouped into fiscal and monetary policy instruments, an external block, and short-term conjunctural indicators.

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